KPMG

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

Consolidated Financial Statements
As at and for the Year Ended
31 December 2013
With Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

24 February 2014

This report contains 2 pages of independent auditors' report and 76 pages of consolidated financial statements and notes to the consolidated financial statements.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve SMMM AŞ

24 February 2014
Istanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Financial Position
As at 31 December 2013

(Currency - In thousands of Turkish Lira)

	Note	Audited 2013	Audited 2012
ASSETS			
Cash and balances with central banks	*10*	27,208	33,900
Due from banks and financial institutions	*10*	27,301	17,490
Interbank and other money market placements	*10*	18,010	9,007
Reserve deposits at central banks	*11*	160,746	102,078
Trading assets	*12*	5,925	20,841
Investment securities	*13*	126,090	140,915
Loaned securities	*13*	153,921	90,031
Loans and finance lease receivables	*14*	1,674,477	1,309,202
Property and equipment	*15*	9,004	9,181
Intangible assets	*16*	64,709	52,426
Current tax assets	*9*	2,284	-
Deferred tax assets	*9*	11,867	7,010
Other assets	*17*	61,377	48,441
Total assets		**2,342,919**	**1,840,522**
LIABILITIES			
Deposit from other banks	*18*	5,649	2,812
Customer deposits	*18*	122,829	60,050
Other money market deposits	*18*	158,903	89,935
Trading liabilities	*12*	25,426	33,076
Funds borrowed	*19*	885,517	857,569
Debt securities issued	*20*	580,011	249,696
Other liabilities	*21*	71,218	61,161
Provisions	*22*	6,827	5,441
Current tax liabilities	*9*	132	1,430
Deferred tax liabilities	*9*	32	-
Total liabilities		**1,856,544**	**1,361,170**
EQUITY			
Share capital and share premium	*23*	379,114	379,114
Legal reserves		14,708	13,281
Available-for-sale reserve, net of tax	*23*	2,640	5,396
Currency translation reserve	*23*	(10,416)	(9,992)
Retained earnings		100,329	91,553
Total equity		**486,375**	**479,352**
Total equity and liabilities		**2,342,919**	**1,840,522**

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Profit or Loss
For the year ended 31 December 2013

(Currency - In thousands of Turkish Lira)

	Note	Audited 2013	Audited 2012
Interest income			
Interest income on loans and finance lease receivables		138,597	133,209
Interest income on deposits with other banks and financial institutions		1,431	2,140
Interest income on securities		14,841	20,517
Interest income on interbank and other money market placements		4,984	4,453
Other interest income		17,383	13,003
Total interest income		**177,236**	**173,322**
Interest expense			
Interest expense on deposits		(2,017)	(429)
Interest expense on other money market deposits		(5,799)	(9,926)
Interest expense on funds borrowed		(38,482)	(59,308)
Interest expense on debt securities issued		(40,531)	(18,214)
Other interest expense		(6,130)	(10,650)
Total interest expense		**(92,959)**	**(98,527)**
Net interest income		**84,277**	**74,795**
Fees and commission income	*4*	14,438	12,123
Fees and commission expense	*4*	(2,065)	(1,735)
Net fee and commission income		**12,373**	**10,388**
Net trading income and foreign exchange gain, net	*5*	6,791	7,748
Other operating income	*6*	17,824	4,741
Total operating income		**121,265**	**97,672**
Net impairment loss on financial assets	*14*	**(26,571)**	**(8,369)**
Personnel expenses	*7*	(32,210)	(30,004)
Depreciation and amortisation	*15 and 16*	(5,696)	(5,250)
Administrative expenses	*8*	(21,446)	(19,557)
Taxes other than on income		(3,356)	(1,765)
Other expenses		(2,327)	(2,266)
Total operating expenses		**(65,035)**	**(58,842)**
Profit before income tax		**29,659**	**30,461**
Income tax	*9*	(4,438)	(6,348)
Net profit for the year		**25,221**	**24,113**

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2013

(Currency - In thousands of Turkish Lira)

	Audited 2013	Audited 2012
Profit for the year	**25,221**	**24,113**
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurement of employee termination benefits	(22)	-
Related tax	4	-
	(18)	**-**
Items that are or may be reclassified to profit or loss		
Foreign currency translation differences for foreign operations	(393)	7,778
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	(6,084)	5,348
Net change in fair value of available-for-sale financial assets transferred to profit or loss	2,608	508
Related tax	689	(1,171)
	(3,180)	**12,463**
Other comprehensive income for the year, net of income tax	**(3,198)**	**12,463**
Total comprehensive income for the year	**22,023**	**36,576**

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Changes in Equity
For the year ended 31 December 2013

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Share premium	Adjustment to share capital	Legal reserves	Available-for-sale reserve, net of tax	Currency translation reserve	Retained earnings	Total
At 1 January 2012		**337,292**	**20,121**	**21,701**	**13,151**	**711**	**(17,770)**	**67,570**	**442,776**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	24,113	24,113
Other comprehensive income									
Foreign currency translation differences	*23*	-	-	-	-	-	7,778	-	7,778
Net change in fair value of available-for-sale financial assets, net of tax	*23*	-	-	-	-	4,685	-	-	4,685
Total other comprehensive income		**-**	**-**	**-**	**-**	**4,685**	**7,778**	**-**	**12,463**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**4,685**	**7,778**	**24,113**	**36,576**
Other changes due to the disposal of the subsidiary		-	-	-	-	-	-	-	-
Contributions by and distributions to owners									
Dividends to equity holders	*23*	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers		**-**	**-**	**-**	**130**	**-**	**-**	**(130)**	**-**
At 31 December 2012		**337,292**	**20,121**	**21,701**	**13,281**	**5,396**	**(9,992)**	**91,553**	**479,352**
At 1 January 2013		**337,292**	**20,121**	**21,701**	**13,281**	**5,396**	**(9,992)**	**91,553**	**479,352**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	25,221	25,221
Other comprehensive income									
Foreign currency translation differences	*23*	-	-	-	-	31	(424)	-	(393)
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	(18)	(18)
Net change in fair value of available-for-sale financial assets, net of tax	*23*	-	-	-	-	(2,787)	-	-	(2,787)
Total other comprehensive income		**-**	**-**	**-**	**-**	**(2,756)**	**(424)**	**(18)**	**(3,198)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(2,756)**	**(424)**	**25,203**	**22,023**
Contributions by and distributions to owners									
Dividends to equity holders	*23*	-	-	-	-	-	-	(15,000)	(15,000)
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**-**	**(15,000)**	**(15,000)**
Transfers		**-**	**-**	**-**	**1,427**	**-**	**-**	**(1,427)**	**-**
At 31 December 2013		**337,292**	**20,121**	**21,701**	**14,708**	**2,640**	**(10,416)**	**100,329**	**486,375**

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

(Currency - In thousands of Turkish Lira)

	Note	Audited 2013	Audited 2012
Cash flows from operating activities			
Interest received		164,652	180,102
Interest paid		(94,895)	(92,966)
Fees and commissions received		14,131	10,486
Trading income		2,712	4,026
Recoveries from non-performing loans		26,416	16,066
Fees and commissions paid		(4,100)	(2,746)
Cash payments to employees and other parties		(30,676)	(27,118)
Cash received from other operating activities		17,824	4,718
Cash paid for other operating activities		(39,566)	(23,717)
Income taxes paid		(4,439)	(4,993)
		52,059	**63,858**
Change in banks and financial institutions		(413)	68
Change in trading assets		(275)	(167)
Change in reserve deposits at central banks		(58,668)	(66)
Change in loans and finance lease receivables		(350,056)	181,762
Change in other assets		(10,901)	(16,842)
Change in deposit from other banks		2,837	2,787
Change in customer deposits		62,779	(21,800)
Change in interbank and other money market deposits		68,954	11,180
Change in other liabilities		10,758	(7,374)
Net cash (used in) / provided by operating activities		**(222,926)**	**213,406**
Cash flows from investing activities			
Purchases of investment securities	*13*	(216,210)	(494,844)
Proceeds from sale and redemption of investment securities	*13*	169,309	463,560
Purchases of property and equipment	*15*	(1,258)	(3,517)
Proceeds from the sale of premises and equipment	*15*	4	222
Purchases of intangible assets	*16*	(6,558)	(3,751)
Proceeds from the sale of intangible assets	*16*	13	-
Net cash used in investing activities		**(54,700)**	**(38,330)**
Cash flows from financing activities			
Proceeds from issue of debt securities		460,956	142,956
Repayment of debt securities		(192,335)	-
Proceeds from funds borrowed		599,211	2,195,510
Repayment of funds borrowed		(564,623)	(2,575,476)
Dividends paid	*23*	(15,000)	-
Net cash provided by / (used in) financing activities		**288,209**	**(237,010)**
Effect of net foreign exchange difference on cash and cash equivalents		1,134	(1,150)
Net increase / (decrease) in cash and cash equivalents		**11,717**	**(63,084)**
Cash and cash equivalents at 1 January	*10*	59,906	122,990
Cash and cash equivalents at 31 December	*10*	**71,623**	**59,906**

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

General

Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("BankPozitif" or "the Bank") was incorporated in Turkey on 9 April 1999 as Toprak Yatırım Bankası A.Ş. as a subsidiary of Toprakbank A.Ş. On 30 November 2001, Toprakbank A.Ş. (the previous parent company) was taken over by the Saving Deposit Insurance Fund ("SDIF"). As a result, SDIF became the controlling shareholder of Toprak Yatırım Bankası A.Ş. C Faktoring A.Ş. acquired 89.92% of the Bank's shares on 1 November 2002 in an auction from SDIF. Following the acquisition, the name of the Bank was changed as C Kredi ve Kalkınma Bankası A.Ş.. C Faktoring A.Ş. and its nominees increased their shareholding to 100% by share capital increases and by purchasing other third party minority shareholders' shares.

Negotiations of the new shareholding structure of the Bank which began in 2005 were finalised and a final share subscription agreement was signed on 13 December 2005. Under this agreement, Bank Hapoalim B.M. ("Bank Hapoalim") acquired a 57.55% stake in BankPozitif by means of a capital injection to be made through Tarshish-Hapoalim Holdings and Investments Ltd. ("Tarshish"), a wholly-owned subsidiary of Bank Hapoalim. On 23 December 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş. Legal approvals concerning the new partnership have been obtained from Israeli and Turkish authorities in 2006 and extraordinary general assembly of the Bank was convened on 31 October 2006.

On 8 April 2008, Tarshish's share in BankPozitif increased to 65.00% by way of share capital increase. On 7 April 2009, Tarshish acquired 4.825% shares of BankPozitif from C Faktoring A.Ş. and Tarshish's share in BankPozitif increased to 69.83%.

As at 31 December 2013, 69.83% (2012 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (2012 – 30.17%) of the shares belong to C Faktoring A.Ş.

The registered head office address of the Bank is located at Rüzgarlıbahçe Mah. Kayın Sok. No: 3 Yesa Blokları Kavacık 34805 Beykoz – Istanbul / Turkey.

(Currency - In thousands of Turkish Lira)

1. Corporate information *(continued)*

Nature of activities of the Bank / Group

The Bank carries out its activities as corporate and retail banking. The Bank's corporate services mainly include corporate lending, project finance, trade finance and financial leasing. In retail banking, the Bank mainly provides retail lending products such as consumer loans, home equity, mortgages, and vehicle to its customers. Apart from lending business, the Bank provides insurance and investment products to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets and from its counterparties. The Bank's subsidiary; Joint Stock Company BankPozitiv Kazakhstan ("JSC BankPozitiv") is entitled to accept deposit from public. Any deposit related financial information is solely results of the operation of JSC BankPozitiv.

JSC BankPozitiv is a commercial bank and provides general banking services to its clients, accepts deposit, grants cash and non-cash loans, provides broker/dealer services, credit cards, cash payment and other banking services for its commercial and retail customers through its head office and three branches located in Kazakhstan.

C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş. ("C Bilişim") is specialised in software development and provides other technological support services to the financial sector including the Bank and its subsidiaries.

As at 31 December 2013, the Bank provides services through its head office. As at 31 December 2013, the number of employees for the Bank and its consolidated subsidiaries are 127 and 222, respectively (2012 – 129 and 234).

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2013 and 2012 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%) 2013	2012
C Bilişim	Istanbul/Turkey	Software development and technology	100	100
JSC BankPozitiv	Almaty/Kazakhstan	Commercial banking activities	100	100

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Capital Market Boards of Turkey, Turkish Commercial Code and Tax Legislation. The Bank's foreign subsidiary maintains its books of account and prepares its statutory financial statements in its local currencies and in accordance with the regulations of the country in which it operates.

The consolidated financial statements as at 31 December 2013 of the Bank are authorised for issue by the management on 24 February 2014. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- trading assets at fair value
- available-for-sale financial assets are measured at fair value

2.3 Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial statements presented in TL has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are as follows;

Key sources of estimation uncertainty

Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In addition, impairment may be appropriate when there is evidence of deterioration in the financial performance of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was TL 52,331 (2012 – TL 43,585).

Allowances for credit losses

The Group reviews its loan portfolio to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements 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 group. Impairment and uncollectibility are measured and recognised 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. Total carrying value of such loans and finance lease receivables as at 31 December 2013 is TL 1,674,477 (2012 – TL 1,309,202) net of impairment allowance of TL 42,801 (2012 – TL 32,023).

Determining fair values

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. As at 31 December 2013, the carrying amount of derivative financial instrument assets TL 5,114 (2012 – TL 20,018) and the carrying amount of derivative financial instrument liabilities is TL 25,426 (2012 – TL 33,076).

Income taxes

The Group is subject to income taxes in Turkey and in Kazakhstan. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 31 December 2013, the Group has net current tax assets amounting to TL 2,152 (2012 – TL 1,430 net current tax liabilities).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly. As at 31 December 2013, the Group carries a net deferred tax assets amounting to TL 11,835 (2012 – TL 7,010, deferred tax liabilities).

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Employee termination benefits

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The carrying value of employee termination benefit provisions as at 31 December 2013 is TL 156 (2012 – TL 180).

Critical accounting judgements in applying the Group's accounting policies

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

Financial asset and liability classification

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

In classifying financial assets and liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.10.

2.5 Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

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

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

a) Subsidiaries, including structured entities

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

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

The change did not have a material impact on the Group's financial statements.

2. Basis of preparation *(continued)*

2.5 Changes in accounting policies *(continued)*

b) Interests in other entities

As a result of IFRS 12, additional disclosures should be made by the Group.

c) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 3.8, prospectively. The change had no significant impact on the measurements of the Group’s assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13.

d) Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, additional disclosures should be made by the Group.

e) Presentation of items of other comprehensive income

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

f) Post-employment defined benefit plans

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

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

3.1 Basis of consolidation

i) Subsidiaries

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

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. There is no negative goodwill recognised by the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Bank, using consistent accounting policies.

(ii) Transactions eliminated on consolidation

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

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies *(continued)*

3.2 Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation.

Foreign currency translation rates used by the Group are as follows:

	USD / TL (full)	EUR / TL (full)	USD / KZT (full)
31 December 2011	1.9065	2.4592	148.40
31 December 2012	1.7776	2.3452	150.74
31 December 2013	2.1343	2.9365	154.06

ii) Foreign operations

The asset and liabilities of foreign subsidiary are translated into presentation currency of the Group at the rate of exchange ruling at the reporting date. The income statement of foreign subsidiary is translated at the weighted average exchange rates after the acquisition date. On consolidation exchange differences arising from the translation of the net investment in foreign entity are included in equity as currency translation reserve.

Foreign currency differences, arising from foreign subsidiary, are recognised in other comprehensive income, under the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss, as part of the profit or loss on disposal.

iii) Hedge of net investment in foreign operation

When a derivative (or a non-derivative financial liability) is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income, under the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is removed and included in consolidated income statement of income on disposal of the foreign operation.

3. Significant accounting policies *(continued)*

3.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for available-for-sale investment securities calculated on an effective interest basis,
- interest income and expense arising from currency swaps, cross currency swaps, futures and interest rate cap/floor agreements which are presented as other interest income and expense in the accompanying consolidated financial statements.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see 3.5).

3.4 Fees and commission

Fees and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Fees for bank transfers and other banking transaction services are recorded as income when collected.

3.5 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

3.6 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

3. Significant accounting policies *(continued)*

3.7 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses can be utilised.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 deferred taxes relate to the same taxable entity and the same taxation authority.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities

Recognition

The Group recognises a financial asset or financial liability in its statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

Classification

Financial assets:

The Group classifies its financial assets into one of the following categories:

Loans and receivables

Held to maturity

Available-for-sale; and

At fair value through profit or loss, and within this category as:

- held for trading.

See 3.9, 3.10, 3.11 and 3.12.

Financial liabilities:

The Group classifies its financial liabilities as measured at amortised cost. See 3.18.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Policy applicable from 1 January 2013

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

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

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

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

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Fair value measurement (continued)

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets except for financial instruments at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the group

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

If there is objective evidence that an impairment loss on loans and finance lease receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and finance lease receivables.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary legal and regulatory procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in profit or loss.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Repurchase and resale transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement (‘repos’), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements (‘repos’) are reclassified in the consolidated financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date (‘reverse repos’) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

3.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in consolidated statement of income. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

3.11 Due from banks and financial institutions and loans and finance lease receivables

“Due from banks and financial institutions” and “Loans and finance lease receivables” are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as “Financial assets held for trading”, designated as “Financial investment – available-for-sale” or “Financial assets designated at fair value through profit or loss”. After initial measurement, amounts due from banks and financial institutions and loans and finance lease receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in “Interest income” in profit or loss. The losses arising from impairment are recognised in profit or loss in “Net impairment loss on financial assets”.

3. Significant accounting policies *(continued)*

3.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Group has the intent and ability to hold until maturity. Investment securities held-to-maturity are initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in the consolidated statement of income. As at 31 December 2013, the Group does not have any held to maturity securities (2012 – none).

Fair value through profit or loss

As at 31 December 2013, the Group does not have any investment securities at fair value through profit or loss (2012 – none).

Available-for-sale financial investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the “Available-for-sale reserve”.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the consolidated statement of income.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

3.13 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

3. Significant accounting policies *(continued)*

3.13 Property and equipment *(continued)*

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful lives for the current and comparative periods are as follows:

▪ buildings	50 years
▪ office equipment, furniture and fixtures	4-10 years
▪ motor vehicles	5-6 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3.14 Intangible assets

i) Goodwill

Goodwill arises on the acquisition of subsidiaries or businesses.

Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

ii) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to fifteen years.

3. Significant accounting policies *(continued)*

3.15 Assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.16 Leases

The Group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as lessor

Finance leases

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

3.17 Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies *(continued)*

3.17 Impairment of non-financial assets *(continued)*

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. In the current year, no impairment loss has been recognized for the goodwill.

3.18 Deposits, funds borrowed and debt securities issued

The Bank is not entitled to collect deposits. Its foreign subsidiary is entitled to collect deposits. Deposits, funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.19 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.20 Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3. Significant accounting policies *(continued)*

3.20 Employee benefits *(continued)*

(iii) Other benefits

The bonus provision which was calculated on defined criteria and targets for the upper-management and employees presented as provision in the accompanying consolidated financial statements.

3.21 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

3.22 Segment reporting

An operating segment is a component of the Group that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial statements is available.

3.23 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

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

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

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

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

3. Significant accounting policies *(continued)*

3.23 New standards and interpretations not yet adopted *(continued)*

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

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

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

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

The Group has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

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

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

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

The amendments to IAS 36 reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 36.

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

The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 39.

IFRIC 21 Levies

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements.

(Currency - In thousands of Turkish Lira)

4. Net fee and commission income

	2013	2012
Fee and commission income		
Letters of guarantee, credit and other guarantees	6,695	5,051
Credit related fees and commissions	3,067	4,000
Banking service commissions	2,870	2,544
Other	1,806	528
Total fee and commission income	**14,438**	**12,123**
Fee and commission expense		
Derivative transaction fees and commissions	-	(372)
Corresponding bank fees	(340)	(301)
Other	(1,725)	(1,062)
Total fee and commission expense	**(2,065)**	**(1,735)**
Net fee and commission income	**12,373**	**10,388**

5. Net trading income and net foreign exchange gain

	2013	2012
Income from investment securities, net	2,598	3,729
Foreign exchange gains / (losses), net	4,079	3,721
Income from trading securities, net	114	298
Total	**6,791**	**7,748**

6. Other operating income

	2013	2012
Gain on sales of assets held for sale	12,077	315
Other	5,747	4,426
Total	**17,824**	**4,741**

(Currency - In thousands of Turkish Lira)

7. Personnel expenses

	2013	2012
Wages and salaries	29,400	27,157
Other fringe benefits	1,202	1,173
Compulsory social security obligations	1,544	1,520
Provision for employee termination and vacation benefits	64	154
Total	**32,210**	**30,004**

The number of employees for the years is:

	2013	2012
The Bank	127	129
Subsidiaries	222	234
Total	**349**	**363**

8. Administrative expenses

	2013	2012
Consultancy expenses	3,540	4,706
Communication expenses	3,503	3,026
Operating lease expenses	3,419	3,048
Information technology expenses	2,603	1,638
Advertising expenses	2,350	2,256
Insurance expenses	696	659
Traveling expenses	672	618
Lightening expenses	657	582
Transportation expenses	536	559
Others	3,470	2,465
Total	**21,446**	**19,557**

9. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and Kazakhstan.

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end reporting date and taxes must be paid in one instalment by the end of the fourth month.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial position, has been calculated on a separate-entity basis.

(Currency - In thousands of Turkish Lira)

9. Taxation *(continued)*

Taxation in Kazakhstan

In accordance with the Legislation tax losses are allowable to be carried forward for the period of 10 years. The tax rate is 20%.

The taxation system in the Republic of Kazakhstan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, who have the authority to impose several fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open for longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

As at 31 December 2013 and 2012, the corporate tax rate for foreign subsidiary in Kazakhstan is 20%.

As at 31 December 2013 and 2012, prepaid income taxes are netted off with the current tax liability as stated below:

	2013	**2012**
Income tax liability	(208)	(7,283)
Prepaid income tax	2,360	5,853
Current tax assets / (liabilities)	**2,152**	**(1,430)**

Reflected as:

	2013	**2012**
Current tax assets	2,284	-
Current tax liabilities	(132)	(1,430)

Income tax recognised in profit or loss

The components of income tax expense as stated below:

	2013	**2012**
Current tax expense		
Current year	(8,946)	(3,332)
Deferred tax income / (expense)		
Relating to origination and reversal of temporary differences	4,508	(3,016)
Income tax expense reported in profit or loss	**(4,438)**	**(6,348)**

Reconciliation of effective tax rate

The Group's effective tax rate in respect of continuing operations as at 31 December 2013 is 14.96% (31 December 2012 – 20.84%).

(Currency - In thousands of Turkish Lira)

9. Taxation *(continued)*

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
Profit before income tax	29,659	30,461
Income tax using the domestic corporation tax rate 20%	(5,932)	(6,092)
Non-deductible expenses	(317)	(316)
Tax exempt income	1,811	60
Total income tax expense in profit or loss	**(4,438)**	**(6,348)**

Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

The deferred tax included in the consolidated financial position and changes recorded in the income tax expense are as follows:

	Deferred tax asset 2013	Deferred tax liability 2013	Income statement 2013	Deferred tax asset 2012	Deferred tax liability 2012	Income statement 2012
Reserve for loan losses	3,816	(1,987)	642	2,879	(1,692)	(679)
Derivative financial instruments	5,085	(1,023)	1,529	6,537	(4,004)	1,914
Liability for defined benefit plans	1,264	-	200	1,064	-	551
Property and equipment	249	(284)	45	169	(249)	91
Tax losses	3,929	-	1,280	2,649	-	(3,904)
Valuation of investment securities(1)	8	-	-	-	(31)	-
Others	1,460	(682)	812	1,653	(1,965)	(989)
Deferred tax asset / (liability)	**15,811**	**(3,976)**		**14,951**	**(7,941)**	
Set off of tax	(3,944)	3,944		(7,941)	7,941	
Net tax asset / (liability)	**11,867**	**(32)**		**7,010**	**-**	
Deferred tax income / (expense)			**4,508**			**(3,016)**

(1) Deferred tax income/expense recognised in equity.

As at 31 December 2013, TL 3,929 of deferred tax assets are recognised for TL 19,645 of tax losses of the Group (31 December 2012: TL 2,649 of deferred tax assets and TL 13,245 of tax losses), unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. The parent Bank's tax losses amounting to TL 8,246 as at 31 December 2013 can be carried forward to offset with future taxable income until 31 December 2018 and JSC BankPozitiv's tax losses amounting to TL 11,399 can be carried forward to offset with future taxable income up to until 31 December 2019.

Reflected as:

	2013	2012
Deferred tax assets	11,867	7,010
Deferred tax liabilities	32	-

(Currency - In thousands of Turkish Lira)

9. Taxation *(continued)*

Deferred tax assets and liabilities *(continued)*

Recognised deferred tax assets and liabilities *(continued)*

Movement of net deferred tax assets can be presented as follows:

	2013	2012
Deferred tax assets/(liabilities), net at 1 January	7,010	(543)
Deferred tax recognised in profit or loss	4,508	(3,016)
Deferred income tax recognised in equity	44	10,760
Exchange rate differences	273	(191)
Deferred tax assets, net at the end of the year	**11,835**	**7,010**

10. Cash and cash equivalents

	2013	2012
Cash and balances with central banks	27,208	33,900
- *Cash on hand*	*8,649*	*2,723*
- *Balances with central banks*	*18,559*	*31,177*
Due from banks and financial institutions	27,301	17,490
Interbank and other money market placements	18,010	9,007
Cash and cash equivalents in the statement of financial position	**72,519**	**60,397**
Less: Due from banks with original maturities of more than 3 months and restricted balance	(896)	(491)
Cash and cash equivalents in the statement of cash flow	**71,623**	**59,906**

11. Reserve deposits at central banks

	2013	2012
Turkish Lira	24,718	8,731
Foreign currency	136,028	93,347
	160,746	**102,078**

According to the regulations of Central Bank of the Republic of Turkey ("Central Bank") and National Bank of Kazakhstan, banks are required to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Group's day to day operations.

As at 31 December 2013 and 2012, the interest rates applied both domestic and foreign subsidiary's reserve deposits is zero.

(Currency - In thousands of Turkish Lira)

12. Trading assets and liabilities

	2013	2012
Debt instruments		
Turkish government bonds-TL denominated	811	823
Derivative transactions		
Derivative financial instruments	5,114	20,018
Total trading assets	**5,925**	**20,841**
Derivative transactions		
Derivative financial instruments	25,426	33,076
Total trading liabilities	**25,426**	**33,076**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments that include forwards, currency and interest rate swaps, futures, currency options and interest rate cap/floor agreements. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

		2013	
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
Derivatives held for trading			
Forward purchase contracts	-	43	39,350
Forward sale contracts	9	27	39,411
Currency swap purchases	1,403	490	578,241
Currency swap sales	3,702	24,866	597,140
Interest rate cap/floor purchase contracts	-	-	213,430
Total derivatives held for trading	**5,114**	**25,426**	**1,467,572**

		2012	
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
Derivatives held for trading			
Forward purchase contracts	-	108	37,415
Forward sale contracts	167	-	37,353
Currency swap purchases	5,694	1,954	575,936
Currency swap sales	14,157	31,014	588,054
Interest rate cap/floor purchase contracts	-	-	177,760
Total derivatives held for trading	**20,018**	**33,076**	**1,416,518**

The Group undertakes all of its transactions in derivative financial instruments with banks and other financial institutions. Notional amounts and contractual maturity analysis of derivative transactions are disclosed in Note 26.

(Currency - In thousands of Turkish Lira)

13. Investment and loaned securities

	2013	2012
Available-for-sale investment securities	126,090	140,915
Loaned securities	153,921	90,031
	280,011	**230,946**

Held-to-maturity investment securities

As at 31 December 2013 and 2012, the Group does not have any investment securities at held-to-maturity investment securities.

Available-for-sale investment securities

	2013	2012
Available-for-sale investment securities at fair value		
Debt instruments		
Turkish government bonds – TL denominated, net	122,834	138,016
- *Gross amount*	*122,834*	*138,016*
- *Impairment on government bonds*	-	-
Foreign government bonds – KZT denominated, net	-	-
- *Gross amount*	-	-
- *Impairment on government bonds*	-	-
Corporate bonds–USD denominated, net	3,226	2,873
- *Gross amount*	*3,226*	*2,873*
- *Impairment on corporate bonds*	-	-
Total available-for-sale securities at fair value	**126,060**	**140,889**
Available-for-sale investment securities at cost		
Equity instruments – unlisted	30	26
Total available-for-sale securities	**126,090**	**140,915**

(Currency - In thousands of Turkish Lira)

13. Investment and loaned securities *(continued)*

Unlisted equity instruments classified as available-for-sale securities are below:

	2013	2012
Common shares of Kazakhstan Stock Exchange	30	26
	30	**26**

As at 31 December 2013, TL denominated available-for-sale securities comprise Turkish Government notes having a maturity range of January 2014 – October 2022. As at 31 December 2013, USD denominated investment securities comprise corporate bonds with semi-annual coupon payments having maturity of October 2015.

As at 31 December 2013, available-for-sale investment securities with carrying value of TL 46,623 (31 December 2012 – TL 52,888) are kept in the Central Bank of Turkey and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for possible stock exchange and money market operations although they are not pledged.

Loaned securities

Carrying value of available-for-sale and trading securities given as collateral under repurchase agreements which are classified as loaned securities and related liability are as follows:

	2013	2012
Loaned securities from available-for-sale securities	153,633	90,031
Loaned securities from trading securities	288	-
Total loaned securities	**153,921**	**90,031**
Related liability (Note18)	150,528	89,935

Repurchase agreements mature within one month.

The movement in available-for-sale investment securities (including loaned securities from available-for-sale securities) is summarised as follows:

	2013	2012
Balance at 1 January	230,946	194,919
Additions	216,210	494,844
Disposals (sale and redemption)	(169,309)	(463,560)
Change in interest accruals	1,293	6,461
Exchange rate differences	583	(1,718)
Balance at end of year end	**279,723**	**230,946**

(Currency - In thousands of Turkish Lira)

14. Loans and finance lease receivables

2013	**Turkish Lira**	**Foreign currency**	**Foreign currency indexed**	**Total**
Corporate loans and finance lease receivables	252,840	1,036,586	162,046	1,451,472
Consumer loans	152,452	29,996	14,428	196,876
Total loans and finance lease receivables	**405,292**	**1,066,582**	**176,474**	**1,648,348**
Loans and finance lease receivables in arrears	38,245	30,685	-	68,930
Less: Specific reserve for impairment	(10,428)	(12,077)	-	(22,505)
Less: Portfolio reserve for impairment	(20,287)	(9)	-	(20,296)
	412,822	**1,085,181**	**176,474**	**1,674,477**

2012	**Turkish Lira**	**Foreign currency**	**Foreign currency indexed**	**Total**
Corporate loans and finance lease receivables	265,689	715,742	150,182	1,131,613
Consumer loans	125,830	10,671	19,774	156,275
Total loans and finance lease receivables	**391,519**	**726,413**	**169,956**	**1,287,888**
Loans and finance lease receivables in arrears	38,303	15,034	-	53,337
Less: Specific reserve for impairment	(8,562)	(8,796)	-	(17,358)
Less: Portfolio reserve for impairment	(14,556)	(109)	-	(14,665)
	406,704	**732,542**	**169,956**	**1,309,202**

As at 31 December 2013, loans and finance lease receivables with floating rates are TL 400,421 (2012 – TL 371,767) and fixed interest rates are TL 1,247,927 (2012 – TL 916,121).

(Currency - In thousands of Turkish Lira)

14. Loans and finance lease receivables *(continued)*

Movements in non-performing loans and finance lease receivables:

	2013	2012
Non-performing loans and finance lease receivables at 1 January	53,337	82,943
Additions to non-performing loans and finance lease receivables	51,296	44,918
Recoveries	(26,416)	(28,423)
Transfers to performing loans and finance lease receivables	(8,783)	(131)
Write-offs(1)	(3,522)	(44,850)
Exchange rate differences	3,018	(1,120)
Non-performing loans and finance lease receivables at the end of year	**68,930**	**53,337**

(1) TL 3,521 of non-performing loans and finance lease receivables were sold to an asset management company as at 31 December 2013 (31 December 2012 – TL 44,411).

Movements in the reserve for possible loan and finance lease receivables losses:

	2013	2012
Reserve at the beginning of the year	32,023	60,414
Provision net of recoveries	26,571	8,369
- Provision for loan and finance lease receivables impairment(2)	*31,106*	*14,285*
- Recoveries	*(4,535)*	*(5,916)*
Write-offs(1)	(2,365)	(35,877)
Reclassification to other assets(2)	(15,161)	-
Exchange rate differences	1,733	(883)
Reserve at the end of the year	**42,801**	**32,023**

(1) TL 2,364 (31 December 2012 – TL 35,437) of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans to an asset management amounting to TL 3,521 as at 31 December 2013 (31 December 2012 – TL 44,111).

(2) Provision for loan and finance lease receivables impairment includes provision for an asset that assets held for sale that was classified as a loan prior to 31 December 2013. As of 31 December 2013, the asset was reclassified to assets held for sale.

As at 31 December 2013, loans and finance lease receivables on which interest is not being accrued, or where interest is suspended amounted to TL 68,930 (2012 – TL 53,337).

(Currency - In thousands of Turkish Lira)

15. Property and equipment

	Land and buildings	Office equipment, furniture and fixtures	Leasehold improvements	Motor vehicles	Total
Cost					
Balance at 1 January 2012	2,238	17,740	6,974	975	27,927
Additions	-	1,735	1,000	782	3,517
Disposals	-	(193)	(12)	(827)	(1,032)
Exchange rate differences	(183)	(482)	(111)	(74)	(850)
Balance at 31 December 2012	**2,055**	**18,800**	**7,851**	**856**	**29,562**
Balance at 1 January 2013	2,055	18,800	7,851	856	29,562
Additions	-	1,160	98	-	1,258
Disposals	-	(11)	(1,915)	-	(1,926)
Exchange rate differences	359	1,071	282	137	1,849
Balance at 31 December 2013	**2,414**	**21,020**	**6,316**	**993**	**30,743**
Depreciation					
Balance at 1 January 2012	(164)	(12,065)	(5,733)	(763)	(18,725)
Depreciation charge for the year	(47)	(1,470)	(1,213)	(108)	(2,838)
Disposals	-	169	-	641	810
Exchange rate differences	14	219	81	58	372
Balance at 31 December 2012	**(197)**	**(13,147)**	**(6,865)**	**(172)**	**(20,381)**
Balance at 1 January 2013	(197)	(13,147)	(6,865)	(172)	(20,381)
Depreciation charge for the year	(56)	(1,867)	(413)	(140)	(2,476)
Disposals	-	11	1,911	-	1,922
Exchange rate differences	(33)	(500)	(255)	(16)	(804)
Balance at 31 December 2013	**(286)**	**(15,503)**	**(5,622)**	**(328)**	**(21,739)**
Carrying amounts					
Balance at 31 December 2011	2,074	5,675	1,241	212	9,202
Balance at 31 December 2012	1,858	5,653	986	684	9,181
Balance at 31 December 2013	2,128	5,517	694	665	9,004

(Currency - In thousands of Turkish Lira)

16. Intangible assets and goodwill

	Goodwill	Purchased software	Developed software	Total
Cost				
Balance at 1 January 2012	58,152	13,267	6,157	77,576
Additions	-	3,245	506	3,751
Disposals	-	-	-	-
Exchange rate differences	(3,932)	(228)	-	(4,160)
Balance at 31 December 2012	**54,220**	**16,284**	**6,663**	**77,167**
Balance at 1 January 2013	54,220	16,284	6,663	77,167
Additions	-	4,827	1,731	6,558
Disposals	-	(32)	-	(32)
Exchange rate differences	10,881	517	(6)	11,392
Balance at 31 December 2013	**65,101**	**21,596**	**8,388**	**95,085**
Amortisation and impairment losses				
Balance at 1 January 2012	(11,407)	(9,630)	(2,191)	(23,228)
Amortisation charge for the year	-	(1,809)	(603)	(2,412)
Disposals	-	-	-	-
Exchange rate differences	772	127	-	899
Balance at 31 December 2012	**(10,635)**	**(11,312)**	**(2,794)**	**(24,741)**
Balance at 1 January 2013	(10,635)	(11,312)	(2,794)	(24,741)
Amortisation charge for the year	-	(2,394)	(826)	(3,220)
Disposals	-	19	-	19
Exchange rate differences	(2,135)	(299)	-	(2,434)
Balance at 31 December 2013	**(12,770)**	**(13,986)**	**(3,620)**	**(30,376)**
Carrying amounts				
Balance at 31 December 2011	46,745	3,637	3,966	54,348
Balance at 31 December 2012	43,585	4,972	3,869	52,426
Balance at 31 December 2013	52,331	7,610	4,768	64,709

Impairment testing for Cash Generating Units ("CGUs") containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs (operating division) as follows.

	2013	2012
JSC BankPozitiv	52,331	43,585
	52,331	**43,585**

No impairment losses on goodwill were recognised during 2013 (2012: None).

The recoverable amounts for the BankPozitiv Kazakhstan's CGUs have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised during 2013 (2012: None) because the recoverable amounts of these CGUs were determined to be higher than their carrying amounts.

(Currency - In thousands of Turkish Lira)

16. Intangible assets and goodwill *(continued)*

The key assumptions used in the calculation of value in use were as follows.

i) Income approach

The discounted cash flow valuation method values JSC BankPozitiv as the present value of a stream of future cash flows.

In the Discounted Dividend Method, distributable profit (dividend) is used. In the calculation of distributable profit, the need to maintain a sufficient capital adequacy ratio is considered as the major constraint. The minimum required rate is 8%, however Group policy was set as; Equity/RWA should be higher than 10%, and additionally Equity / Total Assets should be higher than 5%. In the calculation, it is assumed that the profit of the related year will be distributed in the same year. In the projections provided by the JSC BankPozitiv's management there was no dividend distribution assumption. Accordingly with the assumed dividend distribution the assets decrease by the distributed profit amount and the income decreases by the interest foregone due to the cumulative distributions. In the net income adjustment the average return on assets is used. Between 2014 and 2018, all the adjusted net income is assumed to be distributed. The dividend amount in the terminal value is calculated by increasing the RWA and net income amount in 2018 by the forecast long term growth rate (2.3%). JSC BankPozitiv is still in the investment phase, considerable investment was performed in 2011 and high rates of growth rate are assumed in the projections.

	2013	**2012**
Discount rate	11.7%	11.5%
Terminal value growth rate	3.0%	3.0%

ii) Market approach

For the "Comparison with similar quoted Banks" method, JSC BankPozitiv is compared with banks operating in similar regions. In the comparison, the "Price/Book Value" multiple is used.

Market value can be estimated based on the valuation multiples of similar publicly traded banks. The most common multiple used in valuation is Price/Book Value. At market approach, JSC BankPozitiv's 2013 equity balance was used for comparable bank calculations. According to this method, the estimated value of JSC BankPozitiv is assumed to be the average of these two results.

17. Other assets

	2013	**2012**
Assets held for resale	35,086	17,183
Collateral given for derivative and other transactions	10,411	22,260
Prepaid expenses	9,461	3,420
Prepaid taxes	3,704	3,997
Advances given	1,213	351
Others	1,502	1,230
	61,377	**48,441**

(Currency - In thousands of Turkish Lira)

18. Deposits

Deposits from other banks

	2013		2012	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**
Demand	-	221	-	69
Time	-	5,428	-	2,743
Total	**-**	**5,649**	**-**	**2,812**

Customer deposits

	2013		2012	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**
Retail customers				
Demand	-	10,799	-	6,936
Time	-	4,061	-	2,158
Total	**-**	**14,860**	**-**	**9,094**
Corporate customers				
Demand	-	46,780	-	26,130
Time	-	61,189	-	24,826
Total	**-**	**107,969**	**-**	**50,956**
Total	**-**	**122,829**	**-**	**60,050**

Other money market deposits

	2013		2012	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**
Obligations under repurchase agreements	150,528	-	89,935	-
Central Bank of Turkey	*83,215*	-	*89,604*	-
Istanbul Stock Exchange (Borsa Istanbul) Settlement and Custody	*64,841*	-	-	-
Other	*2,472*	-	*331*	-
Other money market deposits	8,375	-	-	-
Deposits from Istanbul Stock Exchange(Borsa Istanbul) Settlement and Custody	*8,375*	-	-	-
Total	**158,903**	**-**	**89,935**	**-**

As at 31 December 2013, other money market deposits of TL 158,903 (31 December 2012 – TL 89,935) have fixed interest rates.

(Currency - In thousands of Turkish Lira)

19. Funds borrowed

	2013		2012	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**
Short-term[(1)]				
Fixed interest	40,715	275,237	259	174,198
Floating interest	-	3,896	-	-
Long-term[(1)]				
Fixed interest	-	424,284	-	567,815
Floating interest	-	141,385	-	115,297
Total	**40,715**	**844,802**	**259**	**857,310**

(1) Based on original maturities.

Repayments of long term borrowing are as follows:

	2013		2012	
	Floating rate	**Fixed rate**	**Floating rate**	**Fixed rate**
2013	-	-	41,496	306,035
2014	62,213	387,449	21,671	261,780
2015	23,723	36,835	15,004	-
Thereafter	55,449	-	37,126	-
Total	**141,385**	**424,284**	**115,297**	**567,815**

Floating rate borrowings have interest rate re-pricing periods of 3 to 6 months.

As at 31 December 2013 and 2012, funds borrowed are unsecured.

As at 31 December 2013 and 2012, the Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants.

On February 2013, The Bank paid back USD 150 million loan with a 5 year maturity from Commerzbank International S.A. which was obtained through a loan participation note issue in February 2008.

20. Debt securities issued

	2013		2012	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**
Debt securities issued at amortised cost	253,445	326,566	249,696	-
Total	**253,445**	**326,566**	**249,696**	**-**

On February 2013, the Bank issued USD 150 million 5 year maturity fixed–rate notes with a maturity of 7 February 2018 and coupon rate of 5% in the international markets. All of the securities are issued in accordance with the regulations of Capital Markets Board of Turkey and same are being traded at Bond and Bill Markets of Istanbul Stock Exchange and Luxembourg Stock Exchange. Debt securities have a maturity range of April 2014 and February 2018 with fixed interest rates.

(Currency - In thousands of Turkish Lira)

21. Other liabilities

	2013	2012
Current accounts of loan customers	64,862	51,104
Taxes and funds payables	2,328	2,237
Unearned commission income	959	1,265
Insurance payables	352	520
Transfer payables	5	180
Collateral received for derivative transactions	-	1,938
Others	2,712	3,917
	71,218	**61,161**

22. Provisions

	2013	2012
Vacation pay liability	884	834
Employee termination benefits	156	180
Other	5,787	4,427
	6,827	**5,441**

The movement in provision for employee termination benefits is as follows:

	2013	2012
At 1 January	180	121
(Reversal) /charge during the year	(46)	59
Actuarial gain / (loss)(1)	22	-
At 31 December	**156**	**180**

(1) The actuarial gain amounting to TL 22 was accounted under retained earnings.

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2013 and 2012, the Group reflected a liability calculated using the Projected Unit Credit Method and 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 reporting date.

(Currency - In thousands of Turkish Lira)

22. Provisions *(continued)*

The principal actuarial assumptions used at the reporting dates are as follows:

	2013	2012
Discount rate	4.09%	2.89%
Expected rates of salary/limit increases	6.00%	5.00%

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognised in retained earnings.

Other provisions

Other provision includes upper-management and employees bonus and retention agreement provision which was calculated on defined criteria and targets.

23. Capital and reserves

	2013	2012
Number of common shares, TL 0.1 (in full TL), par value (Authorised and issued)	3,372,923,500	3,372,923,500

Share capital and share premium

As at 31 December 2013 and 2012, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2013		2012	
	Amount	**%**	**Amount**	**%**
Tarshish	235,515	69.83	235,515	69.83
C Faktoring A.Ş.	101,777	30.17	101,777	30.17
	337,292	**100.00**	**337,292**	**100.00**
Share premium	20,121		20,121	
Restatement effect	21,701		21,701	
Share capital and share premium	**379,114**		**379,114**	

There are no rights, preferences and restrictions on the distribution of dividends and the repayment of capital.

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

(Currency - In thousands of Turkish Lira)

23. Capital and reserves *(continued)*

Other reserves

Movement in other reserves are as follows:

	Available-for-sale reserve	Foreign currency translation reserve	Total
At 1 January 2012	711	(17,770)	(17,059)
Net unrealised gains on available-for-sale financial investments	4,685	-	4,685
Foreign currency translation	-	7,778	7,778
At 31 December 2012	**5,396**	**(9,992)**	**(4,596)**
At 1 January 2013	5,396	(9,992)	(4,596)
Net unrealised gains on available-for-sale financial investments	(2,787)	-	(2,787)
Foreign currency translation	31	(424)	(393)
At 31 December 2013	**2,640**	**(10,416)**	**(7,776)**

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations.

Dividends

The Group paid dividends amounting to TL 15,000 out of its 2012 profit as at 31 December 2013. (2012: None).

(Currency - In thousands of Turkish Lira)

24. Related parties

The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (2012 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these consolidated financial information, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans and finance lease receivables, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at period-end and relating expense and income for the period are as follows:

	Shareholders		**Directors and key management personnel**		**Others**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Loans and finance lease receivables						
At 1 January	-	-	-	-	-	-
At end of the year	-	-	89	-	-	-
Interest income	-	-	8	-	-	-

As at 31 December 2013, no provisions have been recognised in respect of loans given to related parties (2012 – none).

	Shareholders		**Directors and key management personnel**		**Others**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Funds borrowed						
At 1 January	152,620	152,620	-	-	86,381	99,980
At end of the year	192,335	-	-	-	72,890	86,381
Interest expense	1,179	1,892	-	-	2,180	4,555

Other balances with related parties:

Related party		**Due from banks**	**Deposits**	**Other assets**	**Other Liabilities**	**Non-cash loans**
Shareholders	2013	-	-	-	3	24,556
	2012	-	-	9	14	18,592
Directors and key management personnel	2013	-	51	-	-	-
	2012	-	61	-	5	-
Others	2013	339	5,598	-	90	1,278
	2012	32	2,751	-	90	-

(Currency - In thousands of Turkish Lira)

24. Related party disclosures *(continued)*

Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expense	Other operating income	Other operating expense
Shareholders	2013	1	-	(66)	85	(808)
	2012	1	-	-	229	700
Directors and key management personnel	2013	-	-	-	-	-
	2012	-	-	-	-	-
Others	2013	(18)	-	(139)	105	-
	2012	-	-	-	-	-

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 8,694 (2012 – TL 5,959) comprising salaries and other short-term benefits.

25. Commitments and contingencies

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2013	2012
Letters of guarantee	790,473	429,191
Letters of credit	181,352	73,070
Other guarantees	26,183	16,899
Commitments	2,748	3,078
Total non-cash loans	**1,000,756**	**522,238**

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on head offices, branch premises and vehicles. These leases have an average life of between 1 and 5 years with renewal option and early termination clauses. There are no restrictions placed upon the lessee by entering into these leases. As at 31 December 2013, the Group has non-cancellable operating lease agreements amounting to TL 973 (2012 – TL 561).

25. Commitments and contingencies *(continued)*

Fiduciary activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in this consolidated financial information.

The Group also has 1 open-ended investment fund (2012 – 1 open-ended investment funds) which were established under the regulations of the Capital Markets Board of Turkey and managed by third party investment company. As at 31 December 2013, total size of investment fund is amounting to TL 2,413 (2012 – TL 821). As at 31 December 2013, the Group had investment custody accounts amounting to TL 644 (2012 – TL 159).

26. Financial risk management

Strategy in using financial instruments

BankPozitif's risk approach is to achieve sound and sustainable low risk profile on consolidated basis, through the identification, measurement and monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Group is to manage the credit risk effectively, to eliminate the market risk by not carrying positions and intelligent handling of operational risks supporting the group in achieving its strategic goals. With this understanding, the Group has given priority to create a risk aware culture in which all functions of the Group understand the risks being exposed; to have well-defined areas of responsibilities; to identify and map the risks and controls of each process and to have prudent procedures for the new products and applications.

BankPozitif's basic risk classifications and policies can be summarised as follows:

- well managing the credit risk through a high standardised credit risk management,
- minimizing market risk with the avoidance of currency, interest rate and maturity positions,
- identifying, assessing, monitoring and controlling of the operational risks inherent in products, activities, systems and material processes.

In the credit risk management process of the Group, sound risk management practices are targeted in compliance with Basel II recommendations.

In accordance with the BankPozitif's market risk management strategy; the Group aims not to carry market risk positions and intends to create matching assets and liabilities to eliminate asset liability management risks i.e. maturity risk and interest rate sensitivity risk.

Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size with a conservative trade limit and most of the securities are floating rate notes.

26. Financial risk management *(continued)*

Strategy in using financial instruments *(continued)*

The Bank declares its risk appetite and tolerance levels for the primary risk areas on a Board approved policy since 2009.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Group implements all necessary risk management techniques in compliance with the related regulatory requirements both in Turkey and Israel. Board of Directors follows its duties not only by itself but also through audit committee, which is composed of two board members and responsible for the supervision of the efficiency and adequacy of BankPozitif's internal systems, namely internal control, risk management, internal audit and compliance. The audit committee also oversees the proper functioning of these systems and the accounting and reporting systems and is responsible for the integrity of the information produced.

All risk limits are set by the Board of Directors and reviewed on a regular basis.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the risk policy of the Group, including that of all its subsidiaries, regarding exposure to various risks (credit risks, market risks, operational risks)
- to manage and guide all the activities of internal systems directly/through committees
- to approve new business lines, products or activities that would have a substantial effect on activities of the Group

The Group manages its exposure to all types of risks through the asset and liability management committee ("ALCO") and executive committee, set by Board of Directors and comprising members of senior management, and a representative of main shareholder (board member/consultant of Board of Directors nominated by Bank Hapoalim) and also through limits set on the credit, treasury and asset liability management activities of the Group. These limits are approved and quarterly reviewed by Board of Directors and ALCO and executive committee supervise the compliance with the limits.

Permanent learning program for the Board of Directors is in place from the beginning of 2011 including the subjects risk management, corporate governance in general and corporate governance in the financial sector, Basel II, reporting standards (IFRS and BRSA) and audit.

In summary, in order not to be exposed to liquidity, interest rate and foreign currency risk, the Group aims to keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Group does not take prefer speculative positions on currency, interest rate and maturity that might create risk to the Group due to changes in the prices or mismatch of assets and liabilities.

Credit risk

Credit risk refers to the risk that a contractual partner defaults on its contractual obligations or does not deliver in full accordance with the conditions of contract.

As the focus of BankPozitif is defined as credit activities, credits are the most significant part of its activities and thus managed meticulously. BankPozitif follows a strict credit policy which is reviewed and approved by Board of Directors at certain intervals and whenever necessary. The process for approving, amending and renewing is clearly regulated together with collateral requirements. All facilities are assessed prior to approval via a series of evaluation meetings to ensure that the strict criteria laid out in the Group is adhered to regarding the issues like sector, sub-sector, collateral, maturity, project type etc.

To avoid the default risks to the best possible extend, the Group applies a well-defined "credit allocation process" and afterwards monitoring of the portfolio is being executed using a number of precautionary actions by relevant functions.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Credit risk *(continued)*

Analysis of credit quality

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Group against those assets.

	Loans and advances to customers	Loans and advances to banks	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	1,547,659	27,301	280,011	1,000,756
Past due but not impaired	100,689	-	-	-
Individually impaired	68,930	-	-	-
Allowance for impairment				
- Individual impairment	(22,505)	-	-	-
- Collective impairment	(20,296)	-	-	-
	1,674,477	**27,301**	**280,011**	**1,000,756**

	Loans and advances to customers	Loans and advances to banks	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	1,206,563	17,490	230,946	522,238
Past due but not impaired	81,325	-	-	-
Individually impaired	53,337	-	-	-
Allowance for impairment				
- Individual impairment	(17,358)	-	-	-
- Collective impairment	(14,665)	-	-	-
	1,309,202	**17,490**	**230,946**	**522,238**

The Group regards a loan and advance or a debt security as impaired in the following circumstances.

i) There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.

ii) A retail loan is overdue for 90 days or more.

Loans that are subject to a collective provision are not considered impaired.

Loans and investment debt securities that are past due but not impaired

Loans and investment debt securities that are ‘past due but not impaired’ are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at fair value through profit or loss.

26. Financial risk management *(continued)*

Credit risk *(continued)*

BankPozitif manages its corporate and retail credit portfolio as per following main principles;

Creating credit risk awareness throughout the Group

Senior management is responsible for putting the policies into practice approved by Board of Directors and identifying and managing of credit risk is the joint concern of all staff of the Bank.

The day-to-day management of credit risk is devolved to individual business units, such as the loans and risk monitoring departments of corporate and retail business, which perform regular appraisals of quantitative and qualitative information relating to counterparty credit with respect to their loan policies and procedures.

Having a reliable credit allocation function

Credit approval authorities and their approval limits are also decided by board based on a combination of “rating” and “being new/existing customers” pillars.

Credit approval processes for both retail and corporate loans are centralised. Retail and corporate loans and risk monitoring departments are organised independently from the sales and marketing departments. The retail and corporate loans and risk monitoring departments do not have any sales targets and are solely responsible for the evaluation and allocation of new loans and monitoring the performance of the loan portfolio. Loans and risk monitoring departments are not included in any phase of the pricing of loans.

All the credit marketing, allocation and follow up stages are defined in corporate and retail loan policies, which are approved and reviewed regularly by Board of Directors.

Within the light of “no exception policy” applied in the Group, the compliance of loan disbursements with internal and legal regulations are checked by internal control unit prior to disbursement.

26. Financial risk management *(continued)*

Credit risk *(continued)*

Risk limits

There are risk limits, set by Board of Directors, describing relevant credit limits such as single borrower limit, group exposure limit, sectorial limit, credit approval authorities and their approval limits. Risk limits are determined by comparing Turkey and Israel legislations and the most conservative limitation is taken as benchmark while determining the internal limit.

Although the Bank is not subject to local regulation in terms of credit limits (due to being an investment bank), the Bank set internal credit limits. Single borrower limit is set as 15% (it is lower than the regulatory requirement of 25%) of total equity. In addition to this, the limit for group of borrower is set as 25% of total equity.

Sectoral distribution of loans is monitored on a daily and monthly basis and sectoral analysis of those loans is made in accordance with their risk concentration every year. The Group set a limit on single sector concentration by 20% of total loan book.

In addition to sectorial and borrower limits, the Group has limits on own risk groups' indebtedness as 10% of total equity. Furthermore a limit on six largest borrowers and groups is set as 135% of total equity.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

As at 31 December 2013, the share of the Group's receivables from its top 20 credit customers in its total loan portfolio is 35% (2012 – 33%).

Measuring risk

The Bank uses two internally developed rating systems i.e. borrower rating system and facility rating system. Borrower rating is the measure of borrower's creditworthiness that is mapped by the bank to a risk grade and then to a PD (probability of default). Facility rating assesses the risk of a facility, taking into account associated collateral and guarantees and provides view for the recovery of the risk. Both systems have been validated by Bank Hapoalim's credit risk modelling department over a set of sample corporate financials/facilities.

Facility rating system was developed in 2008 and is being used for the corporate loan customers. This module, differently from the borrower rating module as explained above, rates the transaction instead of the corporate customer and reflects the expected loss amount in case of a default by taking into account collateral types which are subject to coefficients.

Expected loss of credit portfolio is calculated regularly by the Bank. In the calculation, PD values of Group for each rating category is determined by simulating PD's of an international rating institution to the Group's rating classes using "central tendency of the Group" since the Group is lacking such historical data. Central tendency factor is calculated by correlating sectoral non-performing loans ratios of banking sector to Group values.

Both rating systems are being used in credit decisions, the first one giving the indications for borrower's repayment capacity, while the second one for facility's repayment capacity. Requirement of facility rating of BB or higher for the new credit clients is the main principle.

Regarding retail business, decision trees developed internally (and validated by Exparian Scorex) are being used to evaluate retail applicants. G3 scores of Credit Bureau is used in the classification of retail customers.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Credit risk *(continued)*

Monitoring the risk

Under the risk management department, a credit review unit is established to make independent review of the credit portfolio. Credit review unit's functions include the assessment of the quality of the Group's credit portfolio; evaluation of rating credibility of the designated borrowers, giving appropriate weight to the monitoring of problem borrowers. The evaluations are independent from the credit approving authorities, and conclude in a credit rating in the scale of AAA-D.

At certain intervals, FX positions of credit customers are analysed using certain sensitivity scenarios and indirect credit risk assumed is measured. Risk management department controls structure of portfolio by product type, maturity, sector, geographical concentration, rating, currency, collateral and borrower/group of borrowers. The department also monitors concentration levels of the portfolio using internationally accepted criterion, makes recommendations and reports its findings at appropriate managerial levels. Additionally, it calculates sectorial diversification of the loan portfolio in accordance with Herfindahl-Herschman Concentration Index. Bank's credit portfolio, either retail or corporate, is monitored through several analysis and stress tests by predetermined scenarios to measure profit or loss and results are reported at appropriate managerial levels.

Segment information by sectorial concentration for cash loans, finance lease receivables and non-cash loans is as follows:

2013	Cash loans	Non-cash loans	Total
Electric production and supply	189,415	210,563	399,978
Building contractor (general and special trade)	106,863	130,661	237,524
Personal other services	151,229	68,836	220,065
Other commercial services	184,928	33,333	218,261
Public works and civil engineering	185,993	25,981	211,974
Consumer loans	194,772	2,535	197,307
Trade	61,175	129,427	190,602
Tourism and entertainment	163,551	12,433	175,984
Metal and by-products	39,060	96,896	135,956
Other financial institutions	59,620	75,929	135,549
Holding companies	89,921	12,159	102,080
Agriculture and forestry	52,122	13,876	65,998
Electrical and electronic equipment	-	62,171	62,171
Transportation	35,768	11,661	47,429
Commercial, mortgage, investment finance banks	-	44,236	44,236
Textile and clothing	27,879	6,885	34,764
Manufacture of transport equipment	30,611	3,984	34,595
Machinery and equipment	7,133	27,173	34,306
Chemical and oil products	21,700	9,927	31,627
Food, beverage and tobacco industries	3,729	8,571	12,300
Mining and quarrying	2,634	-	2,634
Others	15,253	13,519	28,772
Total performing loans	**1,623,356**	**1,000,756**	**2,624,112**
Interest accruals	24,992	-	24,992
Loans in arrears	68,930	-	68,930
Provision for possible loan losses	(42,801)	-	(42,801)
Total loans	**1,674,477**	**1,000,756**	**2,675,233**

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Credit risk *(continued)*

Monitoring the risk (continued)

2012	Cash loans	Non-cash loans	Total
Tourism and entertainment	213,963	5,679	219,642
Public works and civil engineering	178,202	24,912	203,114
Electric production and supply	134,816	55,654	190,470
Consumer loans	157,186	2,872	160,058
Other commercial services	124,520	15,490	140,010
Trade	47,440	83,009	130,449
Personal other services	92,419	23,384	115,803
Metal and by-products	81,309	29,876	111,185
Building contractor (general and special trade)	64,381	33,385	97,766
Other financial institutions	41,253	43,626	84,879
Transportation	24,320	53,937	78,257
Agriculture and forestry	32,555	15,078	47,633
Machinery and equipment	1,328	27,528	28,856
Manufacture of transport equipment	-	27,691	27,691
Commercial, mortgage, investment finance banks	-	25,162	25,162
Electrical and electronic equipment	-	22,481	22,481
Mining and quarrying	9,109	12,000	21,109
Food, beverage and tobacco industries	14,937	4,183	19,120
Textile and clothing	17,232	562	17,794
Holding companies	13,177	74	13,251
Others	24,293	15,655	39,948
Total performing loans	**1,272,440**	**522,238**	**1,794,678**
Interest accruals	15,448	-	15,448
Loans in arrears	53,337	-	53,337
Provision for possible loan losses	(32,023)	-	(32,023)
Total loans	**1,309,202**	**522,238**	**1,831,440**

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Credit risk *(continued)*

Monitoring the risk (continued)

As at 31 December 2013, total collateralisation coverage of cash and non-cash loans are 84% (2012 – 83%).

The following table sets out the collateralisation of Bank's cash and non-cash loan portfolio, including finance lease receivables;

	2013	2012
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	38,219	36,953
Secured by pledge	4,433	7,056
Secured by guarantee	1,360	356
Secured by assignment and cheques	3,329	459
Unsecured	21,589	8,513
Total	**68,930**	**53,337**
Cash loans (including financial lease receivables) except loan in arrears		
Secured by cash	6,507	2,900
Secured by mortgages	615,226	564,867
Secured by pledge	105,918	75,236
Secured by guarantee	491,396	413,799
Secured by assignment and cheques	228,944	92,454
Unsecured	200,357	138,632
Total	**1,648,348**	**1,287,888**
Non-cash loans		
Secured by cash	35,862	7,411
Secured by mortgages	49,241	76,988
Secured by pledge	58,298	1,667
Secured by guarantee	589,031	259,585
Secured by assignment and cheques	54,550	4,800
Unsecured	213,774	171,787
Total	**1,000,756**	**522,238**

Operating environment in Kazakhstan

The JSC BankPozitiv's operations are primarily located in Kazakhstan. Consequently, the JSC BankPozitiv is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan.

26. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the probability of loss arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes (1) the inability to manage unplanned decreases or changes in funding sources (2) the failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments. There are risk limits set for liquidity risks as; ratio of total assets maturing within one month to total liabilities maturing within one month cannot be lower than 100% (It is set as 80% for foreign currency assets to liabilities). ALCO closely monitors daily, weekly and monthly liquidity position of the bank and has the authority to take actions where necessary.

The Group uses various methods, including predictions of daily cash positions, and scenario analysis to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Risk management and treasury departments monitor daily liquidity gaps in all currencies.

Liquidity position of the Group is measured on monthly basis with three scenarios i.e. global scenario, local scenario and bank specific scenario which are run on TL positions, foreign currency positions and on a total basis. The scenarios aim to show the repayment capacity of the Group using only quasi cash assets against the liabilities of 1 month and 1 year periods. Since the Group has funding centred asset creating structure, the Group does not prefer to take any liquidity risk (monitored cumulatively) in any currency, in any point in any time as decided by the top management of the Group.

Generally, the Bank does not prefer to utilise liquidity from Interbank money markets and is in a net lender position in Interbank money markets.

The table on the next two pages analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at reporting date to contractual maturity date.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

2013	On Demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Unallocated	Total
Assets												
Cash and balances with central banks	27,208	-	-	-	-	-	-	-	-	-	-	27,208
Due from banks and financial institutions	26,209	785	4	302	1	-	-	-	-	-	-	27,301
Interbank and other money market placements	-	18,010	-	-	-	-	-	-	-	-	-	18,010
Reserve deposits at central banks	21,343	139,403	-	-	-	-	-	-	-	-	-	160,746
Trading assets	-	887	217	1,902	460	1495	488	476	-	-	-	5,925
Investment securities	-	2,862	29,240	14,162	39,815	25,675	1,897	4,816	302	7,291	30	126,090
Loaned securities	-	4,368	28,623	920	90,105	12,133	-	3,517	-	14,255	-	153,921
Loans and finance lease receivables	-	66,333	105,878	224,158	415,693	381,677	203,223	90,375	65,952	95,056	26,132	1,674,477
Property and equipment	-	-	-	-	-	-	-	-	-	-	9,004	9,004
Intangible assets	-	-	-	-	-	-	-	-	-	-	64,709	64,709
Current tax assets	-	-	-	-	-	-	-	-	-	-	2,284	2,284
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	11,867	11,867
Other assets	-	18,145	-	-	-	-	-	-	-	-	43,232	61,377
Total assets	**74,760**	**250,793**	**163,962**	**241,444**	**546,074**	**420,980**	**205,608**	**99,184**	**66,254**	**116,602**	**157,258**	**2,342,919**
Liabilities												
Deposit from other banks(1)	220	2,225	-	-	3,204	-	-	-	-	-	-	5,649
Customer deposits(1)	57,579	39,878	690	14,752	5,635	719	3,575	-	1	-	-	122,829
Other money market deposits	-	158,903	-	-	-	-	-	-	-	-	-	158,903
Trading liabilities	-	1,405	3,477	13,899	244	6,394	-	-	7	-	-	25,426
Funds borrowed		162,931	104,334	48,494	461,217	53,089	23,724	23,724	8,004	-	-	885,517
Debt securities issued		1,284	7,168	70,669	55,745	125,000	-	-	320,145	-	-	580,011
Other liabilities	15,175	42,362	-	-	8,820	3,793	-	-	-	599	469	71,218
Provisions	-	3,923	152	-	1,643	-	-	-	-	-	1,109	6,827
Current tax liabilities	-	-	132	-	-	-	-	-	-	-	-	132
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	32	32
Total liabilities	**72,974**	**412,911**	**115,953**	**147,814**	**536,508**	**188,995**	**27,299**	**23,724**	**328,157**	**599**	**1,610**	**1,856,544**
Net liquidity gap	**1,786**	**(162,118)**	**48,009**	**93,630**	**9,566**	**231,985**	**178,309**	**75,460**	**(261,903)**	**116,003**	**155,648**	**486,375**

(1) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

2012	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Unallocated	Total
Assets												
Cash and balances with central banks	33,900	-	-	-	-	-	-	-	-	-	-	33,900
Due from banks and financial institutions	17,236	-	1	251	2	-	-	-	-	-	-	17,490
Interbank and other money market placements	-	9,007	-	-	-	-	-	-	-	-	-	9,007
Reserve deposits at central banks	-	102,078	-	-	-	-	-	-	-	-	-	102,078
Trading assets	-	412	2,437	951	11,205	3,031	1,683	569	553	-	-	20,841
Investment securities	-	65	2,684	55,363	3	72,877	3,106	3,273	1,972	1,546	26	140,915
Loaned securities	-	104	968	12,931	14,824	58,242	-	-	2,636	326	-	90,031
Loans and finance lease receivables	-	45,550	101,326	191,752	318,681	329,845	149,068	70,957	40,617	25,427	35,979	1,309,202
Property and equipment	-	-	-	-	-	-	-	-	-	-	9,181	9,181
Intangible assets	-	-	-	-	-	-	-	-	-	-	52,426	52,426
Current tax assets	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	7,010	7,010
Other assets	-	28,008	-	-	-	-	-	-	-	-	20,433	48,441
Total assets	**51,136**	**185,224**	**107,416**	**261,248**	**344,715**	**463,995**	**153,857**	**74,799**	**45,778**	**27,299**	**125,055**	**1,840,522**
Liabilities												
Deposit from other banks[1]	69	-	-	2,743	-	-	-	-	-	-	-	2,812
Customer deposits[1]	33,066	22,066	210	334	3,908	462	3	-	1	-	-	60,050
Other money market deposits	-	89,935	-	-	-	-	-	-	-	-	-	89,935
Trading liabilities	-	1,207	1,746	899	26,072	3,152	-	-	-	-	-	33,076
Funds borrowed		12,556	305,359	53,291	150,782	283,451	15,004	15,004	15,004	7,118	-	857,569
Debt securities issued		-	1,817	2,309	195,570	50,000	-	-	-	-	-	249,696
Other liabilities	34,684	14,954	7,043	-	-	3,215	-	-	-	-	1,265	61,161
Provisions	-	302	4,057	-	61	-	-	-	-	-	1,021	5,441
Current tax liabilities	-	-	1,430	-	-	-	-	-	-	-	-	1,430
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**67,819**	**141,020**	**321,662**	**59,576**	**376,393**	**340,280**	**15,007**	**15,004**	**15,005**	**7,118**	**2,286**	**1,361,170**
Net liquidity gap	**(16,683)**	**44,204**	**(214,246)**	**201,672**	**(31,678)**	**123,715**	**138,850**	**59,795**	**30,773**	**20,181**	**122,769**	**479,352**

(1) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below analyses residual contractual maturities of liabilities:

2013	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Deposit from other banks	5,649	5,790	221	2,226	-	3,343	-	-
Customer deposits	122,829	123,158	57,579	39,879	693	20,712	4,295	-
Interbank and other money market deposits	158,903	158,934	-	158,934	-	-	-	-
Funds borrowed	885,517	917,435	-	163,320	105,711	533,291	115,113	-
Debt securities issued	580,011	667,287	-	1,300	10,025	151,470	504,492	-
Current account of loan customers(1)	64,862	64,890	15,208	37,085	-	8,819	3,179	599
	1,817,771	**1,937,494**	**73,008**	**402,744**	**116,429**	**717,635**	**627,079**	**599**

(1) Included in other liabilities.

2012	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Deposit from other banks	2,812	2,851	69	-	-	2,782	-	-
Customer deposits	60,050	60,161	33,064	22,074	210	4,347	466	-
Interbank and other money market deposits	89,935	90,030	-	90,030	-	-	-	-
Funds borrowed	857,569	906,854	-	12,678	310,204	224,419	352,334	7,219
Debt securities issued	249,696	271,406	-	-	2,634	216,753	52,019	-
Current account of loan customers(1)	51,104	51,461	34,684	6,173	7,069	-	3,535	-
	1,311,166	**1,382,763**	**67,817**	**130,955**	**320,117**	**448,301**	**408,354**	**7,219**

(1) Included in other liabilities.

The table below analyses contractual maturities of derivative transactions:

2013	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Nominal amounts							
Forward purchase contracts	39,350	-	-	-	-	-	39,350
Forward sale contracts	39,411	-	-	-	-	-	39,411
Currency swap purchases	92,375	132,098	197,605	8,987	147,176	-	578,241
Currency swap sales	92,759	134,727	208,722	8,770	152,162	-	597,140
Interest rate cap/floor purchase contracts	-	-	-	213,430	-	-	213,430
	263,895	**266,825**	**406,327**	**231,187**	**299,338**	**-**	**1,467,572**

2012	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Nominal amounts							
Forward purchase contracts	37,415	-	-	-	-	-	37,415
Forward sale contracts	37,353	-	-	-	-	-	37,353
Currency swap purchases	165,993	45,972	12,235	229,893	121,843	-	575,936
Currency swap sales	166,906	45,847	12,285	243,919	119,097	-	588,054
Interest rate cap/floor purchase contracts	-	-	-	-	177,760	-	177,760
	407,667	**91,819**	**24,520**	**473,812**	**418,700**	**-**	**1,416,518**

26. Financial risk management *(continued)*

Market risk

The Group has low risk appetite towards products which are subject to market risks. Market risks arise from open positions in interest rate, currency and equity/commodity prices, all of which are exposed to general and specific market movements.

The interest rate and exchange rate risks of the financial positions taken by the Bank related to financial position and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to value at risk (VaR) is taken into consideration by the standard method. As at 31 December 2013, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 212 (2012 – TL 97) for one day.

The Group has the principle not to carry equity/commodity portfolios which may cause losses based on the price changes.

The Group has a cautious approach towards derivatives transactions. In principle, derivatives are dealt only for the hedging of banking book. Trade or “market-making” in financial derivative instruments is not among the ordinary activities of the Group and possible only by specific authorisation of the Board of Directors and subject to VaR limits as well as stress scenarios.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and quarterly revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, create matching assets and liabilities and manage positive liquidity.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Group manages foreign currency risk by daily controls of financial planning and control department and treasury department; weekly ALCO meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank’s treasury department.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Currency risk *(continued)*

The concentrations of assets, liabilities and off balance sheet items are as follows:

2013	USD	Euro	CHF	JPY	KZT	Others	Total
Assets							
Cash and balances with central banks	830	186	-	-	26,111	41	27,168
Due from banks and financial institutions	23,227	513	1,016	318	8	722	25,804
Other money market placements	-	-	-	-	18,010	-	18,010
Reserve deposits at central Banks	132,369	-	-	-	3,659	-	136,028
Trading assets	4,170	-	30	81	-	-	4,281
Investment securities	3,226	-	-	-	30	-	3,256
Loans and finance lease receivables(1)	705,312	360,602	9,111	2,837	183,483	126	1,261,471
Property and equipment	-	-	-	-	5,904	-	5,904
Intangible assets	52,331	-	-	-	2,323	-	54,654
Deferred tax assets	-	-	-	-	953	-	953
Other assets	10,911	1,220	9	-	8,607	13	20,760
Total assets	**932,376**	**362,521**	**10,166**	**3,236**	**249,088**	**902**	**1,558,289**
Liabilities							
Deposit from other banks(2)	5,428	5	-	-	212	4	5,649
Customer deposits(2)	31,920	251	-	-	90,169	489	122,829
Trading liabilities	17,486	43	3,336	-	-	-	20,865
Funds borrowed	628,477	216,325	-	-	-	-	844,802
Debt securities issued	326,566	-	-	-	-	-	326,566
Other liabilities	23,629	11,333	180	-	1,101	33	36,276
Provisions	-	-	-	-	131	-	131
Total liabilities	**1,033,506**	**227,957**	**3,516**	**-**	**91,613**	**526**	**1,357,118**
Gross exposure	**(101,130)**	**134,564**	**6,650**	**3,236**	**157,475**	**376**	**201,171**
Off-balance sheet position							
Net notional amount of derivatives	(67,445)	(169,302)	(9,976)	(3,118)	-	(211)	(250,052)
Net exposure	**(168,575)**	**(34,738)**	**(3,326)**	**118**	**157,475**	**165**	**(48,881)**

(1) Foreign currency net non-performing loans and finance lease receivables amounting to TL 18,599 are included at foreign currency position, respectively.

(2) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Currency risk *(continued)*

2012	USD	Euro	CHF	JPY	KZT	Others	Total
Assets							
Cash and balances with central banks	4,463	239	-	-	29,093	69	33,864
Due from banks and financial institutions	14,834	903	619	294	5	249	16,904
Reserve deposits at central Banks	91,589	-	-	-	1,758	-	93,347
Trading assets	6	-	-	-	-	-	6
Investment securities	2,873	-	-	-	26	-	2,899
Loans and finance lease receivables(1)	472,926	281,235	12,603	4,017	131,599	118	902,498
Property and equipment	-	-	-	-	5,888	-	5,888
Intangible assets	43,585	-	-	-	1,205	-	44,790
Deferred tax assets	-	-	-	-	1,516	-	1,516
Other assets	2,444	20,338	14	-	5,299	19	28,114
Total assets	**632,720**	**302,715**	**13,236**	**4,311**	**176,389**	**455**	**1,129,826**
Liabilities							
Deposit from other banks(2)	2,744	2	-	-	63	3	2,812
Customer deposits(2)	16,092	512	-	-	43,392	54	60,050
Trading liabilities	1,744	-	-	-	-	-	1,744
Funds borrowed	713,338	143,972	-	-	-	-	857,310
Other liabilities	23,617	8,396	147	14	594	2	32,770
Provisions	-	-	-	-	113	-	113
Total liabilities	**757,535**	**152,882**	**147**	**14**	**44,162**	**59**	**954,799**
Gross exposure	**(124,815)**	**149,833**	**13,089**	**4,297**	**132,227**	**396**	**175,027**
Off-balance sheet position							
Net notional amount of derivatives	(30,597)	(149,858)	(13,043)	(4,239)	-	(287)	(198,024)
Net exposure	**(155,412)**	**(25)**	**46**	**58**	**132,227**	**109**	**(22,997)**

(1) Foreign currency net non-performing loans and finance lease receivables amounting to TL 6,129 are included at foreign currency position, respectively.

(2) Figures represent the foreign subsidiary's deposit balances.

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 31 December 2013 and 2012 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2013		**2012**	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
USD	(16,853)	(16,857)	(15,557)	(15,541)
EUR	(3,474)	(3,474)	(3)	(3)
Other currencies	15,443	15,443	13,244	13,244
	(4,884)	**(4,888)**	**(2,316)**	**(2,300)**

A 10% strengthening of the TL against the foreign currencies at 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows.

The Group mainly funds its TL assets through its shareholders' equity and is not exposed to interest rate risk in TL assets and liabilities. Foreign currency assets of the Group give rise to interest rate risk as a result of mismatches or gaps in the amounts of foreign currency assets and liabilities and that mature or reprice in a given period. The Group prefers to protect itself from the effects created by the interest rate volatility and to have a match in interest rate risk. Interest rate sensitivity of the Bank is measured and monitored by duration analysis and PV01 analysis by risk management and financial planning and control departments accompanied by an interest sensitive gap representation to illustrate the negative and positive amounts of relevant time buckets.

The Group manages interest rate risk by the ALCO under the supervision of Board of Directors. The Group does not aim to generate income from the mismatch of interest rate sensitive assets and liabilities and nor make losses. Therefore the main objective of interest rate management is to eliminate interest rate sensitivity risk by creating matching assets and liabilities. In case of need, the Group utilises interest rate cap/floor agreements, interest rate swaps and setting limits on the positions, which can be taken by the Group's credit and treasury divisions to hedge the interest rate sensitivity of the Group.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

The table below summarises the Group's exposure to interest rate risk on the basis of the remaining period at the reporting date to the repricing date:

2013	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 Years	Non interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	27,208	27,208
Due from banks and financial institutions	785	4	302	1	-	-	-	-	-	26,209	27,301
Interbank and other money market placements	18,010	-	-	-	-	-	-	-	-	-	18,010
Reserve deposits at central banks	-	-	-	-	-	-	-	-	-	160,746	160,746
Trading assets	917	211	2,399	459	975	488	476	-	-	-	5,925
Investment securities	11,182	39,542	72,141	-	3,195	-	-	-	-	30	126,090
Loaned securities	25,244	36,522	92,155	-	-	-	-	-	-	-	153,921
Loans and finance lease receivables	283,098	101,530	241,490	315,309	326,799	173,214	76,239	51,455	79,211	26,132	1,674,477
Property and equipment	-	-	-	-	-	-	-	-	-	9,004	9,004
Intangible assets	-	-	-	-	-	-	-	-	-	64,709	64,709
Current tax assets	-	-	-	-	-	-	-	-	-	2,284	2,284
Deferred tax assets	-	-	-	-	-	-	-	-	-	11,867	11,867
Other assets	-	-	-	-	-	-	-	-	-	61,377	61,377
Total assets	**339,236**	**177,809**	**408,487**	**315,769**	**330,969**	**173,702**	**76,715**	**51,455**	**79,211**	**389,566**	**2,342,919**
Liabilities											
Deposit from other banks[(1)]	2,225	-	-	3,204	-	-	-	-	-	220	5,649
Customer deposits[(1)]	39,878	690	14,752	5,635	719	3,575	-	1	-	57,579	122,829
Other money market deposits	158,903	-	-	-	-	-	-	-	-	-	158,903
Trading liabilities	1,405	3,477	13,899	244	6,394	-	-	7	-	-	25,426
Funds borrowed	197,968	183,019	43,159	432,006	29,365	-	-	-	-	-	885,517
Debt securities issued	-	6,176	72,945	55,745	125,000	-	-	320,145	-	-	580,011
Other liabilities	37,083	8,819	-	-	3,179	-	-	-	599	21,538	71,218
Provisions	-	-	-	-	-	-	-	-	-	6,827	6,827
Current tax liabilities	-	-	-	-	-	-	-	-	-	132	132
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	32	32
Total liabilities	**437,462**	**202,181**	**144,755**	**496,834**	**164,657**	**3,575**	**-**	**320,153**	**599**	**86,328**	**1,856,544**
Financial position interest sensitivity gap	**(98,226)**	**(24,372)**	**263,732**	**(181,065)**	**166,312**	**170,127**	**76,715**	**(268698)**	**78,612**	**303,238**	**486,375**
Off-balance sheet interest sensitivity gap, net	124,352	(2,629)	(11,111)	217	(130,842)	516	514	(6)	-	-	(18,989)
Total interest sensitivity gap	**26,126**	**(27,001)**	**252,621**	**(180,848)**	**35,470**	**170,643**	**77,229**	**(268,704)**	**78,612**	**303,238**	**467,386**

(1) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

2012	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	33,900	33,900
Due from banks and financial institutions	240	1	251	2	-	-	-	-	-	16,996	17,490
Interbank and other money market placements	9,007	-	-	-	-	-	-	-	-	-	9,007
Reserve deposits at central banks	-	-	-	-	-	-	-	-	-	102,078	102,078
Trading assets	412	2,710	1,501	11,205	2,739	1,152	569	553	-	-	20,841
Investment securities	3,507	110,171	24,553	-	-	2,658	-	-	-	26	140,915
Loaned securities	6,141	49,104	34,786	-	-	-	-	-	-	-	90,031
Loans and finance lease receivables	382,810	65,387	94,879	192,445	277,660	142,551	64,441	34,156	18,894	35,979	1,309,202
Property and equipment	-	-	-	-	-	-	-	-	-	9,181	9,181
Intangible assets	-	-	-	-	-	-	-	-	-	52,426	52,426
Current tax assets	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	7,010	7,010
Other assets	-	-	-	-	-	-	-	-	-	48,441	48,441
Total assets	**402,117**	**227,373**	**155,970**	**203,652**	**280,399**	**146,361**	**65,010**	**34,709**	**18,894**	**306,037**	**1,840,522**
Liabilities											
Deposit from other banks[(1)]	-	-	2,743	-	-	-	-	-	-	69	2,812
Customer deposits[(1)]	22,066	210	334	3,908	462	3	-	1	-	33,066	60,050
Other money market deposits	89,935	-	-	-	-	-	-	-	-	-	89,935
Trading liabilities	1,207	1,746	899	26,072	3,152	-	-	-	-	-	33,076
Funds borrowed	14,630	391,027	53,371	136,761	261,780	-	-	-	-	-	857,569
Debt securities issued	-	1,817	2,309	195,570	50,000	-	-	-	-	-	249,696
Other liabilities	6,162	7,043	-	-	3,215	-	-	-	-	44,741	61,161
Provisions	-	-	-	-	-	-	-	-	-	5,441	5,441
Current tax liabilities	-	-	-	-	-	-	-	-	-	1,430	1,430
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	**134,000**	**401,843**	**59,656**	**362,311**	**318,609**	**3**	**-**	**1**	**-**	**84,747**	**1,361,170**
Balance sheet interest sensitivity gap	**268,117**	**(174,470)**	**96,314**	**(158,659)**	**(38,210)**	**146,358**	**65,010**	**34,708**	**18,894**	**221,290**	**479,352**
Off-balance sheet interest sensitivity gap, net	(849)	17,899	(50)	(31,801)	369	1,181	601	594	-	-	(12,056)
Total interest sensitivity gap	**267,268**	**(156,571)**	**96,264**	**(190,460)**	**(37,841)**	**147,539**	**65,611**	**35,302**	**18,894**	**221,290**	**467,296**

(1) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

As at 31 December 2013 and 2012, the effective interest rate applied on balance sheet items summarised as follows:

2013 (%)	TL	USD	EUR	CHF	JPY	GBP	KZT
Due from banks and financial institutions	6.67	0.19	0.06	-	-	-	-
Interbank and other money market placements	7.27	-	-	-	-	-	3.35
Marketable securities (Investment and trading)	7.47	9.63	-	-	-	-	-
Loans and finance lease receivables							
- Corporate loans	14.35	6.96	6.42	-	-	-	8.44
- Retail loans	17.39	9.44	8.70	7.89	6.34	11.41	14.61
Deposits from other banks	-	4.54	-	-	-	-	-
Customer deposits	-	4.17	-	-	3.00	-	6.11
Other money market deposits	4.61	-	-	-	-	-	-
Funds borrowed and debt securities issued	9.30	5.20	3.52	-	-	-	-
Current account of loan customers(1)	5.98	3.16	0.80	-	-	-	-

2012 (%)	TL	USD	EUR	CHF	JPY	GBP	KZT
Due from banks and financial institutions	9.29	0.33	0.12	-	-	-	0.50
Interbank and other money market placements	10.37	-	-	-	-	-	-
Marketable securities (Investment and trading)	8.54	9.63	-	-	-	-	-
Loans and finance lease receivables							
- Corporate loans	15.11	7.41	7.46	-	-	-	8.03
- Retail loans	17.80	10.95	8.63	7.45	6.12	11.35	15.60
Deposits from other banks	-	4.00	4.00	-	-	-	-
Customer deposits	-	4.12	-	-	-	-	5.94
Other money market deposits	5.93	-	-	-	-	-	-
Funds borrowed and debt securities issued	10.16	5.87	4.13	-	-	-	-
Current account of loan customers(1)	5.36	4.96	3.96	-	-	-	-

(1) Included in other liabilities.

The Bank's value at market risks as of 31 December 2013 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	2013			2012		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	3,257	4,770	1,770	4,583	5,583	3,770
Counter party risk	779	1,126	361	1,245	1,570	1,019
Currency risk	3,671	9,380	2,794	3,361	3,516	2,890
Total value-at-risk	**7,707**	**15,276**	**4,925**	**9,189**	**10,669**	**7,679**

Internal capital adequacy assessment process

Within the risk management framework of the Bank, a comprehensive internal capital adequacy assessment process ("ICAAP") is performed which is reviewed and approved by Board of Directors since 2009.

(Currency - In thousands of Turkish Lira)

26. Financial risk management *(continued)*

Cash flow and fair value interest rate risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

Interest rate sensitivity of the banking book is calculated as the difference of discounted cash flows of assets and liabilities. With this method, the future changes of interest rates and their effects on the cash flow of asset and liabilities are simulated and the influence of these changes on the interest income and equity of the Bank is assessed. The exercise is subject to PV01 and worst case scenario limit which are (1) 100 bps parallel shift of yield curves and (2) worst case shifts of yield curves which refer to parallel and non-parallel (flattening and steepening) shift of TL (500 bps) and foreign currency (200 bps) yield curves. Limits are determined on ALCO and Board of Directors levels and subject to Board of Directors monthly review.

Change at portfolio value/Total equity (%)	2013	2012
Local TL interest rate		
+500 bps	(1.81)	(2.34)
-400 bps	1.86	3.12
Foreign currency interest rate		
+200 bps EUR	(1.62)	(1.00)
-200 bps EUR	0.71	0.29
+200 bps USD	1.85	(0.85)
-200 bps USD	(1.79)	0.28

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Regulatory capital and the capital adequacy ratio declared by the Group as 31 December 2013 and 31 December 2012 are as follows:

	2013	2012
Amount subject to credit risk (I)	2,229,200	1,569,937
Amount subject to market risk (II)	254,170	270,192
Amount subject to operational risk (III)	158,326	176,746
Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+II)	**2,641,696**	**2,016,875**
Capital for the purpose of calculating the capital adequacy ratio	436,156	433,099
Capital adequacy ratio	**16.51%**	**21.47%**

(Currency - In thousands of Turkish Lira)

27. Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2013	Note	Trading	Designated at fair value	Held- to-maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Cash and balances with central banks	*10*	-	-	-	27,208	-	-	27,208
Due from banks and financial institutions	*10*	-	-	-	27,301	-	-	27,301
Interbank and other money market placements	*10*	-	-	-	18,010	-	-	18,010
Trading assets	*12*	5,925	-	-	-	-	-	5,925
Investment securities	*13*	-	-	-	-	126,090	-	126,090
Loaned securities	*13*	288	-	-	-	153,633	-	153,921
Loans and finance lease receivables	*14*	-	-	-	1,674,477	-	-	1,674,477
Total		**6,213**	**-**	**-**	**1,746,996**	**279,723**	**-**	**2,032,932**
Deposit from other banks	*18*	-	-	-	-	-	5,649	5,649
Customer deposits	*18*	-	-	-	-	-	122,829	122,829
Other money market deposits	*18*	-	-	-	-	-	158,903	158,903
Trading liabilities	*12*	25,426	-	-	-	-	-	25,426
Funds borrowed	*19*	-	-	-	-	-	885,517	885,517
Debt securities issued	*20*	-	-	-	-	-	580,011	580,011
Current accounts of loan customers[(1)]	*21*	-	-	-	-	-	64,862	64,862
Total		**25,426**	**-**	**-**	**-**	**-**	**1,817,771**	**1,843,197**

(1) Included in other liabilities.

31 December 2012	Note	Trading	Designated at fair value	Held- to-maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Cash and balances with central banks	*10*	-	-	-	33,900	-	-	33,900
Due from banks and financial institutions	*10*	-	-	-	17,490	-	-	17,490
Interbank and other money market placements	*10*	-	-	-	9,007	-	-	9,007
Trading assets	*12*	20,841	-	-	-	-	-	20,841
Investment securities	*13*	-	-	-	-	140,915	-	140,915
Loaned securities	*13*	-	-	-	-	90,031	-	90,031
Loans and finance lease receivables	*14*	-	-	-	1,309,202	-	-	1,309,202
Total		**20,841**	**-**	**-**	**1,369,599**	**230,946**	**-**	**1,621,386**
Deposit from other banks	*18*	-	-	-	-	-	2,812	2,812
Customer deposits	*18*	-	-	-	-	-	60,050	60,050
Other money market deposits	*18*	-	-	-	-	-	89,935	89,935
Trading liabilities	*12*	33,076	-	-	-	-	-	33,076
Funds borrowed	*19*	-	-	-	-	-	857,569	857,569
Debt securities issued	*20*	-	-	-	-	-	249,696	249,696
Current accounts of loan customers[(1)]	*21*	-	-	-	-	-	51,104	51,104
Total		**33,076**	**-**	**-**	**-**	**-**	**1,311,166**	**1,344,242**

(1) Included in other liabilities.

28. Fair value of financial instruments

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.8.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(Currency - In thousands of Turkish Lira)

28. Fair value of financial instruments *(continued)*

Financial instruments measured at fair value – fair value hierarchy

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

2013	Level 1	Level 2	Level 3	Total
Trading assets	811	5,114	-	5,925
Investment and loaned securities[(1)]	279,981	-	-	279,981
	280,792	**5,114**	**-**	**285,906**
Trading liabilities	-	25,426	-	25,426
	-	**25,426**	**-**	**25,426**

2012	Level 1	Level 2	Level 3	Total
Trading assets	823	20,018	-	20,841
Investment and loaned securities[(1)]	230,920	-	-	230,920
	231,743	**20,018**	**-**	**251,761**
Trading liabilities	-	33,076	-	33,076
	-	**33,076**	**-**	**33,076**

(1) As at 31 December 2013, securities that are not publicly traded amounting to TL 30 have been measured at cost and are excluded from the table (2012 – TL 26).

(Currency - In thousands of Turkish Lira)

28. Fair value of financial instruments *(continued)*

Financial instruments not measured at fair value – fair value hierarchy

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2013	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Loans and finance lease receivables	-	1,861,554	-	1,861,554	1,674,477
Financial liabilities					
Customer deposits	-	120,776	-	120,776	122,829
Other money market deposits	-	158,847	-	158,847	158,903
Funds borrowed	-	914,634	-	914,634	885,517
Debt securities issued	-	629,065	-	629,065	580,011
Current accounts of loan customers(1)	-	65,102	-	65,102	64,862

(1) Included in other liabilities.

31 December 2012	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Loans and finance lease receivables	-	1,437,503	-	1,437,503	1,309,202
Financial liabilities					
Customer deposits	-	60,043	-	60,043	60,050
Other money market deposits	-	89,930	-	89,930	89,935
Funds borrowed	-	903,109	-	903,109	857,569
Debt securities issued	-	256,908	-	256,908	249,696
Current accounts of loan customers(1)	-	51,189	-	51,189	51,104

(1) Included in other liabilities.

28. Fair value of financial instruments *(continued)*

Financial instruments not measured at fair value – fair value hierarchy *(continued)*

Loans and finance lease receivables

Loans and finance lease receivables are net of provisions for impairment. The estimated fair value of loans and finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Estimated fair value of lease contracts receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Customer deposits, other money market deposits, debt securities issued, funds borrowed and current accounts of loan customers

The estimated fair value of fixed interest bearing customer deposits, other money market deposits, debt securities issued and current accounts of loan customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The estimated fair value of fixed interest bearing funds borrowed is based on discounted cash flows using interest rates for new debts with similar remaining maturity and the estimated fair value of floating interest bearing funds borrowed are equal to their carrying value.

Fair values of remaining financial assets and liabilities carried at amortised cost, including cash and balances with central banks, due from banks and financial institutions, interbank and other money market placements, reserve deposits at central banks, deposits from other banks are considered to approximate their respective carrying values due to their short-term nature.

(Currency - In thousands of Turkish Lira)

29. Operating segments

The Group has five reportable segments, namely asset management and treasury, corporate banking, retail banking, foreign financial subsidiary (includes activities of JSC BankPozitiv) and non-financial services (includes activities of C Bilişim), which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following table summarises the Group's operating segments details.

2013	Asset management and treasury	Corporate banking	Retail banking	Foreign financial subsidiary	Non-financial services	Eliminations/ Adjustments	Total
Interest income	38,007	94,450	25,919	18,854	6	-	177,236
Interest expense	(89,814)	(1,126)	-	(2,019)	-	-	(92,959)
Intersegment revenue	41,432	(38,142)	(3,290)	-	-	-	-
Net interest income	**(10,375)**	**55,182**	**22,629**	**16,835**	**6**	**-**	**84,277**
Net fee and commission income	401	9,571	(391)	2,792	-	-	12,373
Net trading income and foreign exchange gain, net	4,439	1,029	-	1,310	51	(38)	6,791
Other operating income	1,833	15,016	259	254	3,402	(2,940)	17,824
Total operating income	**(3,702)**	**80,798**	**22,497**	**21,191**	**3,459**	**(2,978)**	**121,265**
Net impairment loss on financial assets	(278)	(21,033)	(3,811)	(1,449)	-	-	(26,571)
Total operating expenses	(12,730)	(19,312)	(16,311)	(17,397)	(2,225)	2,940	(65,035)
Profit before income tax	**(16,710)**	**40,453**	**2,375**	**2,345**	**1,234**	**(38)**	**29,659**
Income tax	8,264	(11,433)	(489)	(545)	(243)	8	(4,438)
Net profit for the year	**(8,446)**	**29,020**	**1,886**	**1,800**	**991**	**(30)**	**25,221**
Total assets	**737,389**	**1,331,089**	**175,552**	**294,924**	**5,986**	**(202,021)**	**2,342,919**
Total liabilities	**1,651,589**	**94,304**	**3,741**	**137,319**	**903**	**(31,312)**	**1,856,544**

(Currency - In thousands of Turkish Lira)

29. Operating segments *(continued)*

2012	Asset management and treasury	Corporate banking	Retail banking	Foreign financial subsidiary	Non-financial services	Eliminations/ Adjustments	Total
Interest income	39,244	94,103	28,390	11,591	4	(10)	173,322
Interest expense	(96,730)	(1,213)	-	(594)	-	10	(98,527)
Intersegment revenue	46,226	(39,769)	(6,457)			-	-
Net interest income	**(11,260)**	**53,121**	**21,933**	**10,997**	**4**	**-**	**74,795**
Net fee and commission income	(616)	7,339	1,172	2,493	-	-	10,388
Net trading income and foreign exchange gain, net	5,378	554	-	1,773	2	41	7,748
Other operating income	748	346	407	677	4,436	(1,873)	4,741
Total operating income	**(5,750)**	**61,360**	**23,512**	**15,940**	**4,442**	**(1,832)**	**97,672**
Net impairment loss on financial assets	-	(6,930)	(2,361)	922	-	-	(8,369)
Total operating expenses	(12,683)	(18,459)	(11,334)	(13,866)	(4,373)	1,873	(58,842)
Profit before income tax	**(18,433)**	**35,971**	**9,817**	**2,996**	**69**	**41**	**30,461**
Income tax	3,777	(7,374)	(2,012)	(730)	(1)	(8)	(6,348)
Net profit for the year	**(14,656)**	**28,597**	**7,805**	**2,266**	**68**	**33**	**24,113**
Total assets	**617,686**	**1,033,791**	**157,133**	**196,429**	**5,168**	**(169,685)**	**1,840,522**
Total liabilities	**1,237,615**	**72,266**	**2,965**	**63,776**	**1,081**	**(16,533)**	**1,361,170**

(Currency - In thousands of Turkish Lira)

30. Rating

As at 31 December 2013, the Bank's ratings assigned by international rating agencies, Fitch Ratings and Moody's Ratings are as follows:

Fitch Ratings, August 2013

Long Term Foreign Currency IDR	BBB- (Stable)
Short Term Foreign Currency IDR	F3
Support	2
Long Term Local Currency IDR	BBB- (Stable)
Short Term Local Currency	F3
National	AAA (tur) (Stable)

Moody's Ratings, November 2013

Local Currency Issuer Rating	Ba1 (Negative)
Foreign Currency Issuer Rating	Ba1 (Negative)
Financial Strength Rating	D-

31. Subsequent and other events

On 11 February 2014, the National Bank of the Republic of Kazakhstan ("the NBRK") announced that it devaluated the Kazakhstan Tenge ("KZT"). The NBRK announced in its statement that the currency would trade at KZT 185 per USD, with a range of 3 KZT on either side. The KZT closed at 184.55 per USD after the announcement, down approximately 20% from the previous day's close of KZT 155.63 per USD.

Management is still in the process of evaluating the effects of the devaluation on the Bank but does not expect the operational impact to be significant. See page number 65 for the details of the Bank's exposure to foreign currency risk at the reporting date. Management's current assessment is that the devaluation will not affect the Bank's ability to meet its existing contractual obligations.