TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

pwc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türk Ekonomi Bankası A.Ş.

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

Management's responsibility for the consolidated financial statements

2. 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.

Auditor's responsibility

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

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

Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. a member of PricewaterhouseCoopers
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Opinion

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Türk Ekonomi Bankası A.Ş. and its subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM
Partner

Istanbul, 7 March 2013

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Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and balances with central banks	5	4,710,334	4,224,862
Loans and receivables due from banks	5	1,874,745	969,988
Other money market placements	5	1,700,525	510,975
Financial assets at fair value through profit and loss	6,18	639,005	1,276,717
Derivatives used for hedging purposes	18	16,883	22,800
Available-for-sale financial assets	6	4,308,832	4,697,945
Loans and receivables	7	29,484,695	26,093,951
Remeasurement adjustment on interest rate risk hedged portfolios		16,309	11,554
Held-to-maturity investments	6	20,416	21,224
Factoring receivables	8	753,606	818,433
Premises and equipment	9	256,273	264,311
Intangible assets	10	25,012	20,133
Goodwill	11	420,645	420,645
Deferred tax asset	17	196,526	117,381
Other assets	12	1,123,608	713,945
Total assets		**45,547,414**	**40,184,864**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks	13	931,786	1,132,427
Customers' deposits	13	29,028,148	22,965,023
Other money market deposits	13	40,916	1,104,748
Financial liabilities at fair value through profit and loss	18	234,815	273,799
Derivatives used for hedging purposes	18	168,507	50,447
Factoring payables		3,988	6,510
Marketable securities issued	14	494,237	249,107
Funds borrowed:			
- Subordinated debt	15	1,032,310	709,422
- Other funds borrowed	15	6,036,987	7,451,747
Other liabilities	16	2,119,718	1,526,916
Provisions	16	204,911	169,251
Income taxes payable	17	69,576	26,748
Total liabilities		**40,365,899**	**35,666,145**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	19	2,204,390	2,204,390
Premium in excess of par		2,565	2,565
Adjustment to share capital	19	200,262	200,262
Unrealized gains/(losses) on available-for-sale investments, net of tax	20	55,945	(105,281)
Reserve for hedging funds	20	(49,666)	4,505
Other reserves and retained earnings	20	2,760,317	2,199,259
		5,173,813	4,505,700
Non-controlling interest		7,702	13,019
Total equity		**5,181,515**	**4,518,719**
Total liabilities and equity		**45,547,414**	**40,184,864**

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

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

CONSOLIDATED STATEMENT OF INCOME

	Notes	1 January-31 December 2012	1 January-31 December 2011
Interest income			
Interest on loans and receivables		3,577,658	2,525,206
Interest on securities		405,190	458,503
Interest on loans and receivables due from banks		34,643	31,658
Interest on other money market placements		49,504	1,551
Interest income on hedging derivatives		114,304	22,114
Other interest income		-	49
Total interest income		**4,181,299**	**3,039,081**
Interest expense			
Interest on customer deposits		(1,753,592)	(1,070,592)
Interest on other money market deposits		(42,284)	(107,887)
Interest on marketable securities issued		(37,311)	(10,089)
Interest on funds borrowed and deposits from other banks		(324,224)	(387,503)
Interest on hedging derivatives		(152,992)	(46,422)
Total interest expense		**(2,310,403)**	**(1,622,493)**
Net interest income		**1,870,896**	**1,416,588**
Fees and commissions and other operating income			
Fees and commissions income	26	976,061	676,166
Fees and commissions expenses	26	(387,892)	(279,397)
Net loss on financial instruments at fair value through profit or loss	25	(51,869)	(107,202)
Gains less losses on investment securities		13,117	85,325
Net (loss)/gain from other activities		(148)	942
Net banking income		**2,420,165**	**1,792,422**
Operating expenses			
Salaries and employee benefits	23	(790,073)	(693,266)
Other operating expenses	24	(514,377)	(480,390)
Depreciation and amortization	9,10	(82,804)	(95,369)
Taxes other than on income		(74,358)	(75,810)
Gross operating income		**958,553**	**447,587**
Provisions for impairment on loan, lease and factoring receivables, net of recoveries		(249,204)	(82,450)
Net operating income		**709,349**	**365,137**
Gain/(loss) on sale of fixed assets, net		7,146	(936)
Profit from operating activities before income tax		**716,495**	**364,201**
Income tax – current	17	(250,690)	(40,766)
Income tax – deferred	17	105,971	(37,617)
Net profit for the year from continuing operations		**571,776**	**285,818**
Attributable to :			
Equity holders of the Parent		570,235	284,362
Non-controlling interest		1,541	1,456
Net profit for the year		**571,776**	**285,818**
Earnings per share (full TL)	21	0.2594	0.1382

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

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1 January-31 December 2012	1 January-31 December 2011
Profit for the year	**571,776**	**285,818**
Other comprehensive income		
Fair value gains on available-for-sale financial assets, net of tax	161,232	(187,003)
Net change in fair values	164,048	(135,590)
Net amount transferred to income	(2,816)	(51,413)
Cash flow hedge (Effective portion of changes in fair value), net of tax	(54,171)	4,505
Currency translation differences	(9,177)	37,085
Other comprehensive income for the year, net of tax	**97,884**	**(145,413)**
Total comprehensive income for the year	**669,660**	**140,405**
Attributable to:		
Equity holders of the Parent	668,113	138,949
Non-controlling interest	1,547	1,456

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

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Attributable to equity holders of the Parent									Non-controlling Interest	Total equity
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Other capital reserves	Unrealized gains/(losses) on available-for-sale investments, net of tax	Reserve for hedging funds	Currency translation reserve	Legal reserves and retained earnings	Total equity attributable to equity holders of the Parent		
At 1 January 2011		**1,100,000**	**2,158**	**926**	**-**	**83,023**	**-**	**2,365**	**792,460**	**1,980,932**	**-**	**1,980,932**
Effect of merger	(Note 3)	1,050,000	407	199,336	1,084,258	(1,301)	-	-	53,526	2,386,226	-	2,386,226
Net effect of decrease in ownership of a subsidiary not resulting in loss of control		-	-	-	-	-	-	-	(407)	(407)	11,563	11,156
Capital increase through internal resources		54,390	-	-	-	-	-	-	(54,390)	-	-	-
Total comprehensive income for the year		-	-	-	-	(187,003)	4,505	37,085	284,362	138,949	1,456	140,405
At 31 December 2011		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(105,281)**	**4,505**	**39,450**	**1,075,551**	**4,505,700**	**13,019**	**4,518,719**
At 1 January 2012		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(105,281)**	**4,505**	**39,450**	**1,075,551**	**4,505,700**	**13,019**	**4,518,719**
Dividend paid		-	-	-	-	-	-	-	-	-	(6,864)	(6,864)
Total comprehensive income for the year		-	-	-	-	161,226	(54,171)	(9,177)	570,235	668,113	1,547	669,660
At 31 December 2012		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**55,945**	**(49,666)**	**30,273**	**1,645,786**	**5,173,813**	**7,702**	**5,181,515**

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

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	1 January-31 December 2012	1 January-31 December 2011
Cash flows from operating activities			
Interest received		4,206,617	3,028,037
Interest paid		(2,244,969)	(1,559,918)
Fees and commissions received		1,131,478	683,498
Trading income		122,040	(335,572)
Recoveries of impairment of loan, lease and factoring receivables		333,650	68,503
Fees and commissions paid		(387,892)	(279,397)
Cash payments to employees and other parties		(674,717)	(617,972)
Other operating activities		(1,090,802)	(629,702)
Income taxes paid		(204,697)	(95,619)
Cash flows from operating activities before changes in operating assets and liabilities		**1,190,708**	**261,858**
Changes in operating assets and liabilities			
Net decrease / (increase) in trading securities		485,521	(315,258)
Net (increase) / decrease in reserve deposits at central banks		(1,772,341)	11,789
Net increase in loans and receivables due from banks		(736,338)	(90,277)
Net increase in loans and receivables		(3,526,923)	(5,813,929)
Net decrease / (increase) in factoring receivables		57,019	(220,742)
Net increase in other assets		(418,860)	(29,481)
Net decrease in deposits from other banks		(201,568)	(1,081,211)
Net increase in customers' deposits		6,045,141	5,790,667
Net (decrease) / increase in other money market deposits		(1,061,400)	876,688
Net (increase) / decrease in factoring payables		(2,522)	6,510
Net increase in other liabilities		692,406	92,292
Net cash used in operating activities		**(439,865)**	**(772,952)**
Cash flows from investing activities			
Purchases of available- for- sale securities	6	(1,871,048)	(3,740,656)
Proceeds from sale and redemption of available-for-sale securities	6	2,370,095	3,545,824
Proceeds from redemption of held to maturity securities	6	-	94,609
Purchases of property and equipment	9	(74,623)	(69,232)
Proceeds from the sale of premises and equipment		28,296	6,064
Purchases of intangible assets	10	(17,666)	(10,463)
Net cash from / (used) in investing activities		**435,054**	**(173,854)**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		4,652,084	16,878,874
Repayment of funds borrowed and debt securities		(5,743,956)	(16,460,867)
Net cash (used) / from financing activities		**(1,091,872)**	**418,007**
Effect of net foreign exchange difference		(24,885)	199,750
Net decrease in cash and cash equivalents		69,140	(67,191)
Cash and cash equivalents at the beginning of the year (*)	5	3,512,634	3,579,825
Cash and cash equivalents at the end of the year	5	**3,581,774**	**3,512,634**

(*) The cash and cash equivalents at beginning of the prior period also includes cash and cash equivalents that were transferred from Fortis Bank A.Ş. and Fortis Yatırım as at 14 February 2011 amounting to TL 936,187 and from Fortis Portföy as at 22 December 2011 amounting to TL 12,979.

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

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası Anonim Şirketi ("TEB" or "The Bank"), which had been a local bank incorporated in Kocaeli in 1927 under the name of Kocaeli Halk Bankası T.A.Ş., was acquired by the Çolakoğlu Group in 1982. Its title was changed as Türk Ekonomi Bankası A.Ş. and its headquarters moved to İstanbul. On 10 February 2005, BNP Paribas took over 50% of shares of TEB Holding A.Ş. Consequently, BNP Paribas became indirect shareholder of TEB with 42.125% ownership. In 2009 BNP Paribas Group successively acquired 75% of Fotis Bank Belgium and 66% of Fortis Bank Luxembourg and became the shareholder holding the majority of the shares of Fortis Bank Turkey. The indirect majority shareholders of TEB which are BNP Paribas and Çolakoğlu Group has agreed on the merge of TEB and Fortis Bank under the trademark of TEB and following the authorizations obtained from the regulatory authorities on 14 February 2011 the legal merge of two banks has been performed. Certain shares of the Bank, representing 20% of the total, were listed on the İstanbul Stock Exchange in February 2000. Currently, 4.52% of the total shares are publicly traded. TEB's shares are also listed and traded on the London Stock Exchange as GDR's since 2000. The registered office address of TEB is TEB Kampüs C ve D Blok, Saray Mahallesi, Sokullu Caddesi, No: 7A-7B Ümraniye-İstanbul/Turkey.

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

Following the announcement of the Banking Regulation and Supervision Agency (the "BRSA") approval dated 10 February 2011 at the Official Gazette no: 27844 on 12 February 2011, merger of two banks by means of transfer of all rights, receivables, liabilities and obligations to the Bank by dissolution of Fortis Bank A.Ş. has been effectuated in accordance with the relevant registration on 14 February 2011 to İstanbul Trade Registry. Due to the merger, ceiling for the registered capital of the Bank has been increased from TL 1,400,000 to TL 2,204,390, and the issued capital of the Bank has been increased by TL 1,104,390, from TL 1,100,000 to TL 2,204,390.

Issued registered shares of the merged bank were distributed to the shareholders of Fortis Bank A.Ş., which was dissolved due to the merger, in exchange of their current shares. Fortis Bank A.Ş. shareholders received 1.0518 registered TEB shares for each Fortis Bank A.Ş. share having a nominal value of TL 1 (full TL).

As a consequence of the merger, Fortis Bank SA/NV became shareholder of TEB with a shareholding percentage of 47.15% and BNP Paribas SA's indirect ownership increased to 51.086% due to its 75% ownership in Fortis Bank SA/NV and 50% share in TEB Holding A.Ş. whose ownership percentage became 42.043% in TEB following the merger transaction.

As declared in the public disclosure dated 3 June 2010 and the following public disclosures, and within the framework of the agreement between BNP Paribas Group and Çolakoğlu Group, restructuring procedures to allow TEB Holding A.Ş. to continue being the majority shareholder of the Bank and to allow each of Çolakoğlu Group and BNP Paribas Group to hold 50% of the shares in TEB Holding A.Ş. following the merger, subject to the required approvals of the regulatory authorities. Accordingly, as a result of the above mentioned restructuring procedures, which include a capital increase in TEB Holding A.Ş. and several share transfers, TEB Holding A.Ş.'s shareholding ratio in the Bank is aimed to be increased to 55%, and the shareholding ratios of each of Çolakoğlu Group and BNP Paribas Group in TEB Holding A.Ş. are aimed to be 50%-50%, subject to the required approvals of the regulatory authorities.

On 30 March 2011, upon the permissions granted by the BRSA and the Capital Markets Board (the "CMB"), 12.72% of TEB shares held by Fortis Bank SA/NV and 0.24% of TEB shares held by the Çolakoğlu Group were transferred to TEB Holding A.Ş. for a total consideration of TL 616,935. Following the share transfer, TEB Holding A.Ş.'s direct participation in TEB has been increased from 42.04% to 55%.

20.35% of shares in TEB, having a total nominal value of TL 448,512 held by Fortis Bank SA/NV, were transferred to BNPP Yatırımlar Holding A.Ş. for a consideration of TL 865,440; and 14.08% of shares in TEB, having a total nominal value of TL 310,480, held by Fortis Bank SA/NV, were transferred to BNP Paribas Fortis Yatırımlar Holding A.Ş. for a consideration of TL 670,636.

Consequently, BNPP Yatırımlar Holding A.Ş., which has no participation in TEB, eventually has 20.35% of shares in TEB, while BNPP Paribas Fortis Yatırımlar Holding A.Ş. has 14.05% of direct shareholding in TEB.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

1. CORPORATE INFORMATION (continued)

General (continued)

Upon the resolution no: 16/475 of the CMB issued on 27 May 2011, BNP Paribas Fortis Yatırımlar Holding A.Ş. and BNPP Yatırımlar Holding A.Ş. initiated a public call on 2 June 2011 for the acquisition of TEB's 227,730,437.91 shares with a nominal per value of TL 1 at TL 2.21 under the call requirements set out in the CMB's Communiqué Serial: IV, No:44 "Principles of Gathering Equity Interests Through Public Call". The public call intermediated by TEB Yatırım Menkul Değerler A.Ş. was finalized at 17:00 on 17 June 2011.

a) Total nominal value and capital percentage before the call:

-BNP Paribas Fortis Yatırımlar Holding A.Ş.	TL 310,480 (14.085%)
-BNPP Yatırımlar Holding A.Ş.	TL 448,512 (20.346%)

b) Total nominal value and capital percentage after the call:

-BNP Paribas Fortis Yatırımlar Holding A.Ş.	TL 376,584 (17.083%)
-BNPP Yatırımlar Holding A.Ş.	TL 514,616 (23.345%)

Following the merger and related subsequent share transfers among shareholders, the shareholders' structure and their respective ownerships are summarized below as of 31 December 2012 together with the comparative information as of 31 December 2011:

	31 December 2012		31 December 2011	
Name of shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
TEB Holding A.Ş. (previously TEB Mali Yatırımlar A.Ş.)	1,212,414	55.00	1,212,414	55.00
BNP Yatırımlar Holding A.Ş.	514,616	23.34	514,616	23.34
BNP Paribas Fortis Yatırımlar Holding A.Ş.	376,584	17.08	376,584	17.08
Publicly Traded	99,556	4.52	99,556	4.52
Other Shareholders	1,220	0.06	1,220	0.06
	2,204,390	**100.00**	**2,204,390**	**100.00**

As of 31 December 2012, the Bank's paid-in-capital consists of 2,204,390,000 shares of TL 1.00 (full TL) nominal each.

The consolidated financial statements of the Group were authorized for issuance by the management on 7 March 2013. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

Nature of Activities of the Group

The operations of the Group consist of banking, factoring, securities brokerage and portfolio management, which are conducted mainly for local customers.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2012 and 31 December 2011 are as follows:

	Place of Incorporation	Effective Shareholding And Voting Rights %	
		31 December 2012	**31 December 2011**
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım) (*)	Turkey	100.0	100.0
TEB Faktoring A.Ş. (TEB Faktoring)	Turkey	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy) (**)	Turkey	54.75	54.75
Stichting Effecten Dienstverlening	Netherlands	100.0	100.0
Kronenburg Vastgoed B.V.	Netherlands	100.0	100.0

(*) Fortis Yatırım Menkul Değerler A.Ş. ("Fortis Yatırım") in which TEB has 99.998% participation was merged to TEB Yatırım on 24 June 2011.

(**) Fortis Portföy Yönetimi A.Ş. ("Fortis Portföy") in which TEB has 100% participation was merged to TEB Portföy on 22 December 2011. Following the transfer, Group's direct participation in TEB Portföy has decreased to 54.75%.

1. CORPORATE INFORMATION (continued)

General (continued)

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank – Commercial bank, which mainly deals in foreign trade finance, corporate banking, private banking and correspondent banking services.

TEB Yatırım – Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Faktoring – Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Portföy – Managing individual customer portfolios and mutual funds which consist of capital market instruments.

Stichting Effecten Dienstverlening – Operating under Economy Bank for holding securities of customers, located in the Netherlands.

Kronenburg Vastgoed B.V. – Real estate company founded for the purpose of the ownership of property possessed by Economy Bank in the Netherlands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention, except for those assets and liabilities measured at fair value.

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 and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL"). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements, which mainly comprise the effects of deferred taxation and reserve for impairment of loans and receivables.

As explained in Note 3 "Explanations on Business Combination", the merger of TEB and Fortis Bank A.Ş. has been effectuated as of 14 February 2011. The related transaction has been accounted for in accordance with the requirements of IFRS 3 "Business Combinations", and prior period balances presented in the financial statements and notes to the consolidated financial statements do not include any balances or figures related to Fortis Bank A.Ş.

2.2 Summary of Significant Accounting Policies, Judgments and Estimates

Judgments and Estimates

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards (IAS) requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the statement of income and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results of operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the consolidated financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the consolidated financial statements are discussed in the relevant sections below.

Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiaries Which Operate in Turkey:

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira ("TL"). Until 31 December 2004, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

Functional Currencies of Foreign Subsidiaries:

As of 31 December 2012, Economy Bank operating in Netherlands adopted the Euro ("EUR") as its functional currency.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Foreign Currency Translation

The consolidated financial statements are presented in TL, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
31 December 2010	2.06	1.54
31 December 2011	2.44	1.89
31 December 2012	2.35	1.78

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (TL) at the exchange rate ruling at the balance sheet date. The income statements of foreign subsidiaries are translated at average exchange rates for the year end. For consolidation purposes, exchange differences arising from the translation of the net investment in foreign entities are included in equity as currency translation differences until the disposal of the net investment.

On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement as a component of the gain or loss on disposal.

Basis of Consolidation and Goodwill

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December of each year.

Subsidiaries are entities over which the Group has power to govern the financial and operating policies so as to benefit from their activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are subject to consolidation. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the Group controls another entity or not.

Subsidiaries are fully consolidated from the date of acquisition, referring to the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Basis of Consolidation and Goodwill (continued)

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes 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. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units. There is no negative bargain purchase gain recognized by the Group. The goodwill regarding the merge with Fortis Bank A.Ş. and TEB on 14 February 2011 is explained in Note 3, "Explanations on Business Combination".

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and land improvements	50 years
Vehicles	5-10 years
Furniture, fixtures and office equipment and others	2-50 years
Land	Not depreciated
Leasehold improvements	Lease period (max 10 years)

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

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

An item of premises and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Intangible Assets

Intangible assets acquired are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances such as selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying value would increase by TL 113 (31 December 2011: TL 489) before tax effect, by adjusting to fair value due to change in the classification and hence, the valuation methodology, with a corresponding entry in the net unrealized gains on available-for-sale investments under equity. There has been no tainting in the held-to-maturity portfolio during the current period. Following the merger with Fortis Bank A.Ş., the Bank revised its risk management policies. As a result, held to maturity investments amounting to TL 261,199 were classified as financial assets available for sale accordance with IAS 39.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets (continued)

Held-to-maturity investments (continued)

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees 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. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held-to-maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets (continued)

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they belong to. Securities sold subject to repurchase agreements ('repos') are referred to 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 agreement using the effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ('reverse repos') are not recognized in the balance sheet, 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 the effective interest method.

Netting of Financial Assets and Liabilities

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

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

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 recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

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 recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets

a) Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. 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:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
(c) 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;
(d) becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) 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:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the carrying amount and the estimated recoverable amount of the asset, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence for 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 for 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 recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 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 previously written off are included in income.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and factoring receivables as of 31 December 2012 is TL 30,238,301 (31 December 2011: TL 26,912,384) net of impairment allowance of TL 743,670 (31 December 2011: TL 787,992).

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets (continued)

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value since its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the recoverable amount of the asset. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

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 judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. 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 recognized in profit or loss.

Interest - Bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Employee Benefits

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30 day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct, and due to marriage, female employees terminating their employments within a year as of the date of marriage, or male employees terminating their employments due to their military service. The Bank is also required to make a payment for the period of notice calculated over each service year of the employee whose employment is terminated for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS No:19 "International Accounting Standard on Employee Benefits".

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

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Bank uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are reviewed annually. The carrying value of provision for employee termination benefits as of 31 December 2012 is TL93,125 (31 December 2011: TL 60,277).

	31 December 2012	31 December 2011
Discount Rate (%)	6.91	9.55
Expected Inflation Rate (%)	4.78	5.13

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Employee Benefits (continued)

Defined Benefit Plans (continued)

Employees transferred to the Bank following the business combination defined in "General Information" of the Parent Bank and Fortis Bank A.Ş. are the members of "Türk Dış Ticaret Bankası Mensupları Pension Fund Foundation" (the "Pension Fund") which was established in May 1964 under the Provisional Article 20 of Social Insurance Law No: 506. Technical financial statements of the Pension Fund are reviewed by a licensed actuary in accordance with Article 38 of the Insurance Supervisory Law and the "Actuary Regulations" issued based on the same article. As of 31 December 2012, the Pension Fund has 2,571 employees and 873 pensioners (31 December 2011: 3,203 employees and 828 pensioners).

Provisional Article 23 (1) of Banking Law No: 5411 (the "Banking Law") published in the Official Gazette repeated no: 25983 on 1 November 2005 requires the transfer of bank funds to the Social Security Institution (the "SSI") within 3 years after the effective date of the Banking Law and the related paragraph also sets out the basis for the related transfer. However, Article 23 (1) of Banking Law No: 5411 was annulled based on the Constitutional Court's ruling issued on 22 March 2007 and ruled for the stay of execution as of 31 March 2007. The related Court ruling and its basis were published in the Official Gazette No: 26731 on 15 December 2007.

Following the publication of the said decree of the Constitutional Court, the Turkish Grand National Assembly (the "TGNA") initiated its studies on the development of new regulations in regards to the transfer of bank pension participations to the SSI and the related articles of the Social Security Law that are set out to determine the basis of fund transfers and new regulations became effective with its publication in the Official Gazette No: 26870 on 8 May 2008 and the completion of the transfer within 3 years starting from 1 January 2008. Upon the Council of Ministers' resolution issued in the Official Gazette, the transfer period has been extended for 2 years as of 14 March 2011. According to amendment on the social security and general health insurance law published in the Official Gazette dated 8 March 2012 numbered 6283, mentioned 2-year transfer period has been increased to 4 years.

According to the related regulation, all other outstanding social rights and payments of participants (even though they are covered in their respective settlement deed) shall be covered by the companies employing pension fund participants following the transfer of the pension fund participants and/or those that are paid annuities and their beneficiaries to the Social Security Institution.

The technical financial statements of the Pension Fund are prepared by an independent actuary company considering related regulation and the Fund is not required to provide any provisions for any technical or actual deficit in the financial statements based on the actuarial report prepared as of 31 December 2012. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

The Bank management anticipates that any potential liability that may be incurred during or after the transfer will be likely recovered by plan assets and no additional liability is foreseen.

Defined Contribution Plans

The Bank pays contributions to Social Security Funds and to "Security Fund" whose members joined to the Bank as a consequence of merger.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, 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.

Restructuring Costs

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity (Note 23 and 24). The Group recorded TL 33,025 (31 December 2011: TL 69,727) of restructuring expense in the current year.

Leases

(a) The Group as Lessee

Finance leases

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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

(b) The Group as Lessor

Finance leases

The leased assets are classified 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 outstanding net investment. Initial direct costs are included in the initial measurement of the financial lease receivable and reduce the amount of income recognized over the lease term.

Factoring Receivables

Factoring receivables are recognized at original factored receivable amount less advances extended against factoring receivables, interest and factoring commissions charged, and are carried at amortized cost, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Leases (continued)

(a) The Group as Lessee (continued)

Income and Expense Recognition

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized 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 recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

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

Income Tax

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

The Group is subject to income taxes in various jurisdictions. Where there are matters causing the final tax outcome to be 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 of 31 December 2012, the Group carries TL 69,576 of income taxes payable (31 December 2011: TL 26,748), TL 196,526 of deferred tax asset (31 December 2011: TL 117,381) and has no deferred tax liability (31 December 2011: none).

Current tax

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

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and 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 credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Income Tax (continued)

Deferred tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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.

Derivative Financial Instruments and Hedge Accounting

Derivatives Held for Trading

The Group enters into transactions with derivative instruments including forwards, swaps, options and futures in the foreign exchange and capital markets. Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

All derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. As of 31 December 2012, the carrying amount of derivative financial assets held for trading is TL 166,710 (31 December 2011: TL 322,414) and the carrying amount of derivative financial liabilities held for trading is TL 234,815 (31 December 2011: TL 273,799).

Derivatives and Hedge Accounting

The Bank applies fair value hedge accounting for the interest rate risk of a certain portfolio of its consumer loans with certain cross currency and interest rate swaps designated as hedging instruments.

The fair value changes of the hedged portfolio are included under "remeasurement adjustment on interest-rate risk hedged portfolios" in the balance sheet and "net gain/loss on financial instruments at fair value through profit or loss" in the income statement. Additionally, the difference between the fair value and the carrying value of the hedged portfolio at the inception of hedge accounting is amortized based on the respective maturities and included in "net gain/loss on financial instruments at fair value through profit or loss" in the income statement together with the fair value changes of the hedged portfolio and hedging instruments. The actual interest income and expense on the derivatives used for hedging purposes are recorded as interest income and expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Derivatives and Hedge Accounting (continued)

The Bank applies cash flow hedge accounting by matching a portion of its swap portfolio with its deposit basis. As of 31 December 2012, the reserve for hedging funds net of tax under equity is TL 49,666 debit (31 December 2011: TL 4,505 credit).The details of the hedge accounting are explained in Note 18.

At the inception of the hedge, the Bank prepares formal documentation of the hedging relationship identifying the hedged item, the hedging instrument, the hedging strategy, the type of risk covered and the methods used to assess the effectiveness of the hedging relationship. On inception and on a quarterly basis the effectiveness of the hedging relationship is assessed consistently with the original documentation.

The Bank has started a fair value hedge for the value of its fixed coupon government bonds in September 2012 by using swaps as hedging instruments.

As of 31 December 2012, the carrying amount of derivative financial assets used for hedging purposes is TL 16,883 (31 December 2011: TL 22,800) and the carrying amount of derivative financial liabilities for hedging purposes is TL 168,507 (31 December 2011: TL 50,447).

Fiduciary Assets

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

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Interest Income and Expenses

Interest income and expense are recognized in the income statement for all interest bearing instruments whose cash inflows and outflows are known on an accrual basis using the effective interest method. In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

Fees and Commission Income and Expenses

Fees for various banking services are recorded as income when collected and prepaid commission income on cash and non-cash loans is recorded as income by using effective interest rate in the related period.

Fees and commissions for funds borrowed paid to other financial institutions, as part of the transaction costs, are recorded as prepaid expenses using the effective interest rate and are expensed on the related periods.

Dividend Income

The dividend income is reflected to the financial statements on a cash basis when the profit distribution is realized by the associates and subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards

a. Standards, amendments and IFRICs applicable to 31 December 2012 year ends

i) IFRS 7 (amendment), "Financial instruments: Disclosures on transfers of assets", is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. Comparative information is not needed in the first year of adoption. Earlier adoption is permitted.

ii) IFRS 1 (amendment), "First-time adoption of IFRS", is effective for annual periods beginning on or after 1 July 2011. These amendments include two changes to IFRS 1. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. Earlier adoption is permitted.

iii) IAS 12 (amendment), "Income taxes" on deferred tax, is effective for annual periods beginning on or after 1 January 2012. This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, "Income taxes - recovery of revalued non-depreciable assets", will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. Early adoption is permitted.

b. New IFRS standards, amendments and IFRICs effective after 1 January 2013

i) IAS 19 (amendment), "Employee benefits", is effective for annual periods beginning on or after 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. Early adoption is permitted.

ii) IAS 1 (amendment), "Presentation of financial statements", regarding other comprehensive income is effective for annual periods beginning on or after 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. Early adoption is permitted.

iii) IFRS 10, "Consolidated financial statements", is effective for annual periods beginning on or after 1 January 2013. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries.

iv) IFRS 11, "Joint arrangements", is effective for annual periods beginning on or after 1 January 2013. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

v) IFRS 12, "Disclosures of interests in other entities", is effective for annual periods beginning on or after 1 January 2013. The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards

b. New IFRS standards, amendments and IFRICs effective after 1 January 2013 (continued)

vi) IFRS 10, 11 and 12 on transition guidance (amendment), is effective for annual periods beginning on or after 1 January 2012. The amendment also provide additional transition relief in IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosure related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for the periods before IFRS 12 is applied.

vii) IFRS 13, "Fair value measurement", is effective for annual periods beginning on or after 1 January 2013. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

viii) IAS 27 (revised), "Separate financial statements", is effective for annual periods beginning on or after 1 January 2013. The standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

ix) IAS 28 (revised), "Associates and joint ventures", is effective for annual periods beginning on or after 1 January 2013. The standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

x) IFRS 7 (amendment), "Financial instruments: Disclosures", on offsetting financial assets and financial liabilities", is effective for annual periods beginning on or after 1 January 2013. The amendment reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements.

xi) IAS 32 (amendment), "Financial instruments: Presentation", on offsetting financial assets and financial liabilities", is effective for annual periods beginning on or after 1 January 2014. The amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

xii) IFRS 1 (amendment), "First time adoption', on government loans", is effective for annual periods beginning on or after 1 January 2013. The amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

xiii) Annual Improvements to IFRSs 2011 is effective for annual periods beginning on or after 1 January 2013. Amendments effect five standards: IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34.

xiv) IFRS 9, "Financial instruments: Classification and Measurement", is effective for annual periods beginning on or after 1 January 2015. The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments.

xv) IFRS 10, (amendment) "Consolidated Financial Statements", IFRS 12 and IAS 27 for investment entities is effective for annual periods beginning on or after 1 January 2013. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an "investment entity" definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

xvi) IFRIC 20, "Stripping costs in the production phase of a surface mine" is effective for annual periods beginning on or of 1 January 2013. This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

Statement of Cash Flow is prepared by indirect method.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

3. EXPLANATIONS ON BUSINESS COMBINATION

On 14 February 2011, TEB and Fortis Bank A.Ş. merged under the legal entity of TEB resulting in dissolution of Fortis Bank A.Ş. and transfer of all its rights, receivables, liabilities and obligations to the Bank. This business combination is accounted for by applying the acquisition method in accordance with IFRS 3 Business Combinations since the merging banks were not under common control of the same parties before and after the merger. In this business combination, TEB was identified as the acquirer and Fortis Bank A.Ş. as the acquiree.

As a result of this merger, the existing shareholders of Fortis Bank A.Ş., which was dissolved due to the merger, received 1.0518 merged bank share with a nominal value of TL 1 (in full) in exchange of each Fortis Bank A.Ş. share. Accordingly, 1,104,390,000 merged bank shares were given to the shareholders of the acquiree. The fair value of consideration given amounting to TL 2,385,482 was determined as the fair value of the equity shares given and was based on an independent valuation advisory report. The merger impact also includes Fortis Yatırım's equity shares' fair value difference amounting to TL 742. Consequently, the total impact of the merger in equity is presented as TL 2,386,224 in the accompanying statement of changes in shareholders' equity.

The acquiree's (Fortis Bank A.Ş.) identifiable assets acquired and identifiable liabilities assumed at the date of acquisition are recognized at fair value. TL 48,783 of fair value difference is recognised as capital reserves under equity.

Fair value of the identifiable net assets of Fortis Bank A.Ş. as of 14 February 2011 is as follows:

Cash and balances with Central Bank and money market placements	2,133,269
Securities	1,438,043
Loans and receivables	8,063,309
Premises and equipment and intangible assets	170,696
Deferred tax asset	56,530
Other receivables and other assets	325,384
Deposits	(6,195,402)
Funds borrowed and money market deposits	(2,990,035)
Other liabilities	(1,036,957)
Net assets acquired	**1,964,837**

Fair value differences arise mainly from loans and receivables, securities, premises and equipment and funds borrowed.

TL 420,645 of positive difference between the fair value of consideration given amounting to TL 2,385,482 and the fair value of the net identifiable assets acquired amounting to TL 1,964,837 is accounted for as goodwill in the financial statements and included in capital reserves under equity.

Prior period financial statements of the Group provided as comparatives represent the published financial statements as of these dates.

The acquiree's net loss was TL 9,894 and net interest income was TL 64,822 for the period between 1 January 2011 and 14 February 2011 prior to the acquisition. If the merger had been completed as of 1 January 2011, the net profit and net interest income of the merged Bank would have been TL 275,924 and TL 1,481,410 respectively.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

4. SEGMENT INFORMATION

Business segments

The Group has three main business segments which are organized and managed separately according to the nature of the products and services provided.

Year ended 31 December 2012

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
Net banking income	647,505	1,454,801	319,406	(1,863)	2,419,849
Dividend income	-	-	22,127	(21,811)	316
Revenues from other segments	-	-	-	-	-
Net banking income	**647,505**	**1,454,801**	**341,533**	**(23,674)**	**2,420,165**
Segment result (A)	145,924	833,845	(241,478)	(21,796)	716,495
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**145,924**	**833,845**	**(241,478)**	**(21,796)**	**716,495**
Income tax	-	-	(144,719)	-	(144,719)
Net profit	**145,924**	**833,845**	**(386,197)**	**(21,796)**	**571,776**
Assets and Liabilities					
Segment assets	9,332,070	20,839,654	13,606,255	(252,629)	43,525,350
Unallocated assets	-	-	2,021,502	562	2,022,064
Total assets	**9,332,070**	**20,839,654**	**15,627,757**	**(252,067)**	**45,547,414**
Segment liabilities	16,425,444	12,644,294	8,974,927	(72,971)	37,971,694
Unallocated liabilities	-	-	2,394,388	(183)	2,394,205
Total liabilities	**16,425,444**	**12,644,294**	**11,369,315**	**(73,154)**	**40,365,899**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	74,623
Intangible fixed assets	-	-	-	-	17,666
Depreciation	-	-	-	-	70,060
Amortization	-	-	-	-	12,744

Year ended 31 December 2011

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
Net banking income	457,650	1,062,651	273,942	(1,821)	1,792,422
Dividend income	-	-	18,470	(18,470)	-
Revenues from other segments	-	-	-	-	-
Net banking income	**457,650**	**1,062,651**	**292,412**	**(20,291)**	**1,792,422**
Segment result (A)	106,111	552,084	(292,569)	(1,425)	364,201
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**106,111**	**552,084**	**(292,569)**	**(1,425)**	**364,201**
Income tax	-	-	(78,383)	-	(78,383)
Net profit	**106,111**	**552,084**	**(370,952)**	**(1,425)**	**285,818**
Assets and Liabilities					
Segment assets	7,637,870	19,221,946	12,026,287	(237,654)	38,648,449
Unallocated assets	-	-	1,535,853	562	1,536,415
Total assets	**7,637,870**	**19,221,946**	**13,562,140**	**(237,092)**	**40,184,864**
Segment liabilities	11,781,235	12,288,533	9,931,440	(57,978)	33,943,230
Unallocated liabilities	-	-	1,722,915	-	1,722,915
Total liabilities	**11,781,235**	**12,288,533**	**11,654,355**	**(57,978)**	**35,666,145**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	69,257
Intangible fixed assets	-	-	-	-	10,463
Depreciation	-	-	-	-	83,931
Amortization	-	-	-	-	11,438

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

4. SEGMENT INFORMATION (continued)

Geographical segments

The Group's geographical segments are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total Group revenue.

Year ended 31 December 2012

	Turkey	European Union	Total
Other segment information			
Segment assets	41,895,340	1,630,010	43,525,350
Unallocated assets	1,999,283	22,781	2,022,064
Total assets	**43,894,623**	**1,652,791**	**45,547,414**
Capital expenditures			
Tangible fixed assets	74,243	380	74,623
Intangible fixed assets	17,291	375	17,666

Year ended 31 December 2011

	Turkey	European Union	Total
Other segment information			
Segment assets	37,058,189	1,590,260	38,648,449
Unallocated assets	1,520,560	15,855	1,536,415
Total assets	**38,578,749**	**1,606,115**	**40,184,864**
Capital expenditures			
Tangible fixed assets	68,872	385	69,257
Intangible fixed assets	10,387	76	10,463

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

5. CASH, BALANCES WITH CENTRAL BANKS, LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

	31 December 2012	31 December 2011
Cash on hand	641,383	813,078
Balances with central banks	55,905	186,864
Reserve deposits with central banks	4,013,046	3,224,920
- Unrestricted	447,147	1,607,534
- Restricted	3,565,899	1,617,386
Cash and balances with central banks	**4,710,334**	**4,224,862**
Loans and receivables due from banks	**1,874,745**	**969,988**
Funds lent under reverse repurchase agreements	1,700,525	510,975
Other money market placements	**1,700,525**	**510,975**
Less: Loans due from banks	(1,127,354)	(558,161)
Less: Time deposits with original maturities of more than three months	(8,137)	(14,915)
Less: Reserve deposits (restricted)	(3,565,899)	(1,617,386)
Less: Interest accruals	(2,440)	(2,729)
Cash and cash equivalents in the statements of cash flows	**3,581,774**	**3,512,634**

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit a portion of certain liability accounts as specified in the related decree.

As of 31 December 2012, the Turkish lira required reserve ratios are determined to be within the range of 5%-11% depending on the maturity structure of deposits denominated in Turkish lira (31 December 2011: 5%-11% for all Turkish lira liabilities), and the required reserve ratios for foreign currency deposits and other liabilities within the range of 6%-11% (31 December 2011: 6%-11% for all foreign currency liabilities).

According to the amendments dated 18 December 2012 and 22 January 2013, the Turkish Lira required reserve ratios are determined to be within the range of 5% and 11.25% depending on the maturity structure of deposits denominated in Turkish Lira, and the required reserve ratios for foreign currency deposits and other liabilities within the range of 6% and 12%.

Banks in the Netherlands are required to maintain a certain amount of funds and/or reserves on an account at the Dutch Central Bank and receive interest on their reserve requirement deposits at rates in line with open-market facilities. 1% reserve deposit requirement is applicable in Netherlands for all deposits maturing less than 2 years.

The effective interest rates on deposits and placements are as follows:

	31 December 2012		31 December 2011	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with central banks	-	0.05%	-	1.00%
Reserve deposits	-	-	-	-
Loans and receivables due from banks	4.00%-12.25%	0.07%-6.61%	6.25%-12.20%	0.14%-6.09%
Funds lent under reverse repurchase agreements	5.01%-7.30%	-	1.26%-12.45%	-
Interbank placements	-	-	-	-

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES

Financial assets at fair value through profit and loss:

	31 December 2012			31 December 2011		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Financial assets at fair value through profit and loss						
Debt instruments	**472,295**			**954,303**		
Turkish government bonds and treasury bills	465,362	4.28%-11.55%	3.29%-5.03%	597,864	7.37%-11.30%	2.28%-7.00%
Eurobonds issued by the Turkish government	6,933	-	1.09%-5.70%	356,439	-	3.47%-6.50%
Derivatives held for trading	**166,710**	-		**322,414**	-	-
Total financial assets at fair value through profit and loss	**639,005**			**1,276,717**		

Investment Securities:

	31 December 2012			31 December 2011		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Available- for-sale securities at fair value						
Debt instruments						
Turkish government bonds	4,233,013	5.70%-10.12%	-	4,303,559	6.90%-11.31%	1.36%-2.28%
Turkish treasury bills	-	-	-	-	-	-
Eurobonds issued by the Turkish government	51,216	-	1.36%-3.01%	369,373	-	1.80%-5.66%
Equity instruments – unlisted (*)	**10,601**	-	-	**9,227**	-	-
Equity instruments – listed(**)	**5,318**	-	-	**5,287**	-	-
Total available- for-sale securities at fair value	**4,300,148**			**4,687,446**		
Available-for-sale securities at cost						
Equity instruments – unlisted (***)	8,684	-	-	10,499	-	-
Total available- for- sale securities	**4,308,832**			**4,697,945**		
Held-to-maturity securities at amortized cost						
Debt instruments						
Eurobonds issued by the Turkish government	20,416	-	5.12%-5.28%	21,224	-	5.12%-5.28%
Total held-to-maturity securities	**20,416**			**21,224**		
Total investment securities	**4,329,248**			**4,719,169**		

(*) After the sale of the Group's 90.01% shares in TEB Finansal Kiralama A.Ş.; the remaining 9.99% shares are presented as available-for-sale financial assets and accounted for at fair value in accordance with IAS 39. The corresponding amount is TL 12,594. With the sale of the Group's shares as at 29 September 2011, the corresponding amount became TL 9,227.

(**) Includes TL 1,172 (31 December 2011: TL 1,076) of investment fund participation certificate.

(***) All unquoted available for sale equities are recorded at fair value except for the Group's investment of TL 8,684 which is recorded at cost since its fair value cannot be reliably estimated (31 December 2011: TL 10,499).

Unlisted equity securities classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. Consequently they are reflected at cost less reserve for impairment, if any, as a reliable estimate of their fair values could not be made.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (continued)

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements, which are included in the related portfolio are:

	31 December 2012	31 December 2011
Financial assets at fair value through profit and loss	-	276,889
Available-for-sale securities	42,596	826,098
Held-to-maturity securities	-	-
Carrying value of securities given as collateral under repos	**42,596**	**1,102,987**
Related liability	**40,916**	**1,104,748**

As of 31 December 2012, government securities with carrying values of TL 307,854 (31 December 2011: TL 766,048) are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem Opsiyon Borsası (Turkish Derivatives Exchange) for regulatory requirements and as a guarantee for stock exchange, money market operations and derivatives.

TL 1,216,316 (31 December 2011: TL 1,220,332) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Gains and losses from investment securities arise from derecognition of available-for-sale and held-to-maturity securities.

The movement in investment securities (including those classified as loaned securities) is summarized as follows:

	31 December 2012			31 December 2011		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
At 1 January	4,697,945	21,224	4,719,169	3,515,011	235,019	3,750,030
Increase due to the merger	-	-	-	779,106	138,203	917,309
Exchange differences	(32,981)	(808)	(33,789)	128,556	3,629	132,185
Additions	1,871,048	-	1,871,048	3,740,656	-	3,740,656
Disposals (sale and redemption)	(2,370,095)		(2,370,095)	(3,545,824)	(94,609)	(3,640,433)
Transfer	-	-	-	261,199	(261,199)	-
Changes in amortized cost and fair value	142,915	-	142,915	(180,759)	181	(180,578)
Total	**4,308,832**	**20,416**	**4,329,248**	**4,697,945**	**21,224**	**4,719,169**

The Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the year.

Following the merger with Fortis Bank A.Ş., the Bank revised its risk management policies. As a result, held to maturity investments amounting to TL 261,199 were classified as financial assets available for sale in accordance with IAS 39 in prior year's financial statement.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

7. LOANS AND RECEIVABLES

	31 December 2012			31 December 2011		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Commercial	19,644,347	6.25%-33.00%	2.40%-13.20%	18,211,710	8.25%-30.00%	2.27%-15.00%
Consumer	7,934,970	8.76%-25.56%	2.50%-9.50%	6,474,066	7.25%-27.25%	2.80%-13.20%
Credit cards	1,838,782	9.11%-10.72%	-	1,373,671	9.53%-11.08%	-
Other	88,238	8.32%-20.82%	-	52,905	12.26%-26.60%	-
Total performing loans	**29,506,337**			**26,112,352**		
Loans in arrears	714,897			755,678		
Less: Allowance for individually impaired loans	(491,058)			(551,632)		
Less: Allowance for collectively impaired loans	(245,481)			(222,447)		
Total	**29,484,695**			**26,093,951**		

Loans and receivables amounting to TL 7,513,709 (31 December 2011: TL 7,223,040) have floating interest rates and the rest have fixed interest rates.

The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

31 December 2012	**Commercial**	**Consumer**	**Credit Cards**	**Other**	**Total**
Neither past due nor impaired	18,905,172	7,599,960	1,591,411	88,238	28,184,781
Past due not impaired	739,175	335,010	247,371	-	1,321,556
Individually impaired	502,171	110,837	101,889	-	714,897
Total gross	**20,146,518**	**8,045,807**	**1,940,671**	**88,238**	**30,221,234**
Less: allowance for individually impaired loans	(345,248)	(67,048)	(78,762)	-	(491,058)
Less: allowance for collectively impaired loans	(162,014)	(52,800)	(30,667)	-	(245,481)
Total allowance for impairment	**(507,262)**	**(119,848)**	**(109,429)**	**-**	**(736,539)**
Total net	**19,639,256**	**7,925,959**	**1,831,242**	**88,238**	**29,484,695**

31 December 2011	**Commercial**	**Consumer**	**Credit Cards**	**Other**	**Total**
Neither past due nor impaired	17,583,187	5,997,453	1,212,389	52,905	24,845,934
Past due not impaired	628,523	476,613	161,282	-	1,266,418
Individually impaired	464,005	115,757	175,916	-	755,678
Total gross	**18,675,715**	**6,589,823**	**1,549,587**	**52,905**	**26,868,030**
Less: allowance for individually impaired loans	(302,087)	(100,987)	(148,558)	-	(551,632)
Less: allowance for collectively impaired loans	(162,300)	(36,043)	(24,104)	-	(222,447)
Total allowance for impairment	**(464,387)**	**(137,030)**	**(172,662)**	**-**	**(774,079)**
Total net	**18,211,328**	**6,452,793**	**1,376,925**	**52,905**	**26,093,951**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

7. LOANS AND RECEIVABLES (continued)

A reconciliation of the allowance for individual impairment losses on loans and receivables by classes is as follows;

	Commercial	Consumer	Credit Cards	Total
At 1 January 2012	302,087	100,987	148,558	551,632
Charge for the year	244,132	46,476	52,884	343,492
Recoveries	(99,533)	(12,244)	(17,347)	(129,124)
Sale of non-performing loans (*)	(100,450)	(68,171)	(105,333)	(273,954)
Exchange difference	(988)			(988)
At 31 December 2012	**345,248**	**67,048**	**78,762**	**491,058**

	Commercial	Consumer	Credit Cards	Total
At 1 January 2011	**195,554**	**11,511**	**38,663**	**245,728**
Charge for the year (**)	220,866	92,450	128,275	441,591
Recoveries	(67,797)	(2,974)	(16,709)	(87,480)
Sale of non-performing loans (***)	(49,925)	-	(1,671)	(51,596)
Exchange difference	3,389	-	-	3,389
At 31 December 2011	**302,087**	**100,987**	**148,558**	**551,632**

(*) TL 124,050 of non-performing loans portfolio with TL 107,511 provision has been sold to Girişim Varlık Yönetimi A.Ş. for TL 16,878 which has been collected as of 11 April 2012 with the completion of necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TL 361 has been netted off from sales of non-performing loans.

TL 188,710 of the non-performing loans portfolio with TL 175,044 provision has been sold to LBT Varlık Yönetimi A.Ş. for TL 22,222 which has been collected as of 30 November 2012 with the completion of the necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TL 8,556 has been netted off from sales of non-performing loans.

(**) Includes the provision amounting of TL 281,037 transferred from Fortis Bank A.Ş.

(***) TL 55,484 of the non-performing loans portfolio of the Bank with TL 54,078 provision has been sold to LBT Varlık Yönetim A.Ş. for TL 4,250 which has been collected as of 12 January 2011 with the completion of the necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TL 2,844 has been netted off from sales of non-performing loans.

Movements in the reserve for impairment on loans and receivables:

	31 December 2012	31 December 2011
Reserve at beginning of year	774,079	355,327
Provision for impairment	368,215	188,660
Recoveries	(130,576)	(104,969)
Provision net of recoveries	237,639	83,691
Sale of non-performing loans	(273,954)	(51,596)
Increase due to the merger	-	375,942
Exchange differences	(1,225)	10,715
Reserve at the end of the year	**736,539**	**774,079**

The fair value of collaterals, capped with the respective outstanding loan balance, that the Group holds relating to loans individually impaired at 31 December 2012 is TL 210,582 (31 December 2011: TL 202,442).

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

	Current Period	Prior Period
Mortgage	172,046	161,744
Vehicle	31,756	25,151
Cash	151	5,270
Other	6,629	10,277
Total	**210,582**	**202,442**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

7. LOANS AND RECEIVABLES (continued)

Collateral and credit enhancements obtained by taking possession:

31 December 2012	Commercial	Consumer	Total
Residential, commercial or industrial property	55,129	8,587	63,716
Other	375	-	375
Total	**55,504**	**8,587**	**64,091**

31 December 2011	Commercial	Consumer	Total
Residential, commercial or industrial property	57,498	8,685	66,183
Other	866	-	866
Total	**58,364**	**8,685**	**67,049**

The Group employs independent appraisers in determining the current fair values of its real estates. Provision for impairment loss amounting to TL 1,291 is booked for real estates held for resale as per the appraisals performed as of 31 December 2012 (31 December 2011: TL 3,261).

Aging analysis of past due but not impaired loans per class of financial instruments:

31 December 2012	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	424,859	181,511	132,805	739,175
Consumer	72,792	180,147	82,071	335,010
Credit cards	244,220	32	3,119	247,371
Total	**741,871**	**361,690**	**217,995**	**1,321,556**

31 December 2011	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	445,550	111,018	71,955	628,523
Consumer	293,542	136,847	46,224	476,613
Credit cards	150,805	1,973	8,504	161,282
Total	**889,897**	**249,838**	**126,683**	**1,266,418**

Of the total aggregate amount of gross past due but not yet impaired loans and receivables, the fair value of collaterals, capped with the respective outstanding total past due and not past due loan balances of the customer, that the Group held as at 31 December 2012 was TL 849,145 (31 December 2011: TL 914,752).

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

	Current Period	Prior Period
Mortgage	613,921	659,862
Vehicle	126,438	118,348
Cash	12,788	23,438
Other	95,998	113,104
Total	**849,145**	**914,752**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

8. FACTORING RECEIVABLES

	31 December 2012			31 December 2011		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Factoring receivables	759,441	7.00%-40.00%	1.68%-7.00%	828,598	10.00%-33.00%	2.20%-12.00%
Receivables in arrears	10,502	-	-	14,499	-	-
Less: Reserve for impairment	(7,131)	-	-	(13,913)	-	-
Less: Deferred income	(9,206)	-	-	(10,751)	-	-
Net factoring receivables	**753,606**			**818,433**		

As of 31 December 2012, all of the factoring receivables have fixed interest rates (31 December 2011: All of factoring receivables have fixed interest rates).

Movements in the reserve for impairment:

	31 December 2012	31 December 2011
Reserve at beginning of year	13,913	8,860
Provision for impairment	8,264	5,157
Recoveries	(351)	(104)
Provision net of recoveries	7,913	5,053
Loans written off during the year (*)	(14,695)	-
Reserve at end of the year	**7,131**	**13,913**

(*) TL 15,120 of non-performing loans portfolio with TL 15,120 provision has been sold to LBT Varlık Yönetimi A.Ş. for TL 425 which has been collected as of 20 December 2012 with the completion of necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TL 425 has been netted off from sales of non-performing loans.

There are no collaterals that TEB Faktoring holds relating to factoring receivables individually determined to be impaired at 31 December 2012 (31 December 2011: TL none).

9. PREMISES AND EQUIPMENT

	Land and Buildings	Leased Tangible Assets	Other	Total
At 1 January 2011, net of accumulated depreciation	**12,908**	**348**	**104,312**	**117,568**
Additions	5,000	1	64,256	69,257
Disposals	(6,689)	(100)	(1,198)	(7,987)
Depreciation charge for the year	(3,743)	(128)	(80,060)	(83,931)
Exchange adjustment	1,317	-	(15)	1,302
Increase due to the merger	88,413	109	79,580	168,102
At 31 December 2011/1 January 2012, net of accumulated depreciation	**97,206**	**230**	**166,875**	**264,311**
Additions	-	195	74,428	74,623
Disposals	(10,598)	-	(1,686)	(12,284)
Depreciation charge for the year	(3,313)	(120)	(66,627)	(70,060)
Exchange adjustment	(300)	-	(17)	(317)
At 31 December 2012, net of accumulated depreciation	**82,995**	**305**	**172,973**	**256,273**
At 31 December 2011				
Cost	130,970	814	734,769	866,553
Accumulated depreciation	(33,764)	(584)	(567,894)	(602,242)
Net carrying amount	**97,206**	**230**	**166,875**	**264,311**
At 31 December 2012				
Cost	116,968	1,003	783,585	901,556
Accumulated depreciation	(33,973)	(698)	(610,612)	(645,283)
Net carrying amount	**82,995**	**305**	**172,973**	**256,273**

As of 31 December 2012 the cost of fully depreciated items equals TL 460,709 (31 December 2011: TL 360,480).

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

10. INTANGIBLE ASSETS

	Software Licenses and Other
At 1 January 2011, net of accumulated amortization	12,736
Additions	10,463
Amortization charge for the year	(11,438)
Exchange adjustment	157
Increase due to the merger	8,215
At 31 December 2011, net of accumulated amortization	**20,133**
Additions	17,666
Disposal	(10)
Amortization charge for the year	(12,744)
Exchange adjustment	(33)
At 31 December 2012, net of accumulated amortization	**25,012**
At 31 December 2011	
Cost (gross carrying amount)	112,701
Accumulated amortization and impairment	(92,568)
Net carrying amount	**20,133**
At 31 December 2012	
Cost (gross carrying amount)	130,240
Accumulated amortization and impairment	(105,228)
Net carrying amount	**25,012**

The cost of fully amortized items amounted to TL 82,414 as of 31 December 2012 (31 December 2011: TL 69,124).

11. GOODWILL

Goodwill amounting to TL 1,205 relates to the acquisition of the minority (17.5%) shares of TEB Portföy by TEB Yatırım from ABN Amro Bank N.V. in 2005. With the loss of control of TEB Yatırım on TEB Portföy, the positive difference of TL 1,205 between the acquisition cost and share in the equity of acquired subsidiaries has been derecognized in the accompanying consolidated financial statements as of 31 December 2011.

The goodwill amounting to TL 420,645, recognized on 14 February 2011 with the acquisition of Fortis Bank A.Ş., is explained in Note 3, "Explanations on Business Combination".

Movements on goodwill in the current period:

	1 January-31 December 2012	1 January - 31 December 2011
Gross value at the beginning of the period	**420,645**	**1,685**
Accumulated depreciation (-)	-	480
Movements within the period :		
Additional goodwill	-	420,645
Goodwill written off due to discontinued operations in current period or complete /partial sale of an asset (-)	-	1,205
Gross value at the end of the period	**420,645**	**420,645**
Accumulated amortization (-)	-	-
Net book value at the end of the period	**420,645**	**420,645**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

12. OTHER ASSETS

	31 December 2012	31 December 2011
Cheque clearing accounts	474,799	178,725
Receivable from credit card payables	267,625	256,029
Collaterals for derivatives	191,870	88,161
Assets held for resale, net of impairment (Note 8)	64,091	67,049
Prepaid expenses	42,597	30,331
Other transitory accounts	35,772	68,789
Others	46,854	24,861
Total	**1,123,608**	**713,945**

13. DEPOSITS

Deposits from other banks

	31 December 2012			31 December 2011		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Demand	193,156	-	-	192,716	-	-
Time	738,630	1.75%-11.20%	0.07%-2.00%	939,711	1.50%-12.00%	0.03%-4.50%
Total	**931,786**			**1,132,427**		

Customers' deposits

	31 December 2012			31 December 2011		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign currency		Turkish Lira	Foreign Currency
Saving						
Demand	1,602,126	-	0.60%-0.90%	1,705,079	-	0.75%-0.90%
Time	14,781,732	3.50%-15.00%	0.25%-5.10%	10,011,565	5.75%-13.10%	0.25%-5.95%
	16,383,858			**11,716,644**		
Commercial and other						
Demand	3,020,430	-	1.00%-1.50%	2,581,120	-	0.75%-2.50%
Time	9,623,860	2.50%-12.00%	0.25%-4.00%	8,667,259	2.50%-13.10%	0.25%-5.85%
	12,644,290			**11,248,379**		
Total	**29,028,148**			**22,965,023**		

Included in customer accounts were deposits of TL 924,662 (31 December 2011: TL 875,009) held as collateral for cash and non-cash loans given.

Other money market deposits

	31 December 2012			31 December 2011		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Obligations under repurchase agreements:						
-Due to customers and other financial institutions	40,916	4.86%-5.25%	-	64,591	1.49%	-
-Due to banks	-	-	-	1,040,157	5.75%-10.55%	-
	40,916			**1,104,748**		

As of 31 December 2012 and 31 December 2011 all deposits and money market deposits have fixed interest rate.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

14. MARKETABLE SECURITIES ISSUED

	31 December 2012		31 December 2011	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Bank Bonds	333,689	-	249,107	-
Bank Bills	160,548	-	-	-
Total	**494,237**	-	**249,107**	-

The bonds issued in 2011 with notional value of 300,000 TL, maturity of 178 days, issue date of 19 July 2011, simple interest rate of 8.72877%, annual compounding rate of 8.92408% started trading in IMKB Quote Administration on 21 July 2011 with ISIN code of "TRQTEBK11215" and matured on 13 January 2012.

The bond issued by the Bank on 2 May 2012 with a nominal value of TL 150,000, maturity of 378 days, with due date of 15 May 2013, with an interest rate of 10.47127% and with an annual compound rate of 10.45244% has started to be publicly traded in bonds and bills markets under the ISIN code "TRSTEBK51316".

The bond issued by the Bank on 20 July 2012 with a nominal value of TL 384,586, maturity of 175 days, with due date of 14 January 2013, with an interest rate of 8.83824% and with an annual compound rate of 9.04179% has started to be publicly traded in bonds and bills markets with the ISIN code "TRQTEBK11314".

The bond issued by the Bank on 24 September 2012 with a nominal value of TL 109,132, maturity of 351 days, with due date of 11 September 2013, with an interest rate of 8.08557% and with an annual compound rate of 8.09781% has started to be publicly traded in bonds and bills markets with the ISIN code "TRQTEBK91316".

Bond issued by the Bank on 5 December 2012 with a nominal value of TL100,000, maturity of 365 days, with due date of 4 December 2013, with an interest rate of 6.89500% and with an annual compound rate of 6.89500% has started to be publicly traded in bonds and bill market with the ISIN code "TRSTEBKA1319".

15. FUNDS BORROWED

		31 December 2012	
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	4,347,337	5.75%-15.12%	0.05%-4.28%
Floating interest	1,199,210	6.25%-9.25%	0.25%-4.26%
Medium/long-term			
Fixed interest	326,364	10.55%-11.62%	1.7%-4.52%
Floating interest	164,076	7.75%-9.25%	0.61%-4.46%
Floating interest subordinated loan	1,032,310	-	3.91%-5.5%
Total	**7,069,297**		

		31 December 2011	
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	5,338,071	5.75%-10.50%	0.60%-5.13%
Floating interest	1,025,917	6.25%-8.75%	1.11%-4.95%
Medium/long-term			
Fixed interest	492,577	9.48%-11.62%	0.98%-4.52%
Floating interest	595,182	6.75%-8.75%	1.31%-4.95%
Floating interest subordinated loan	709,422	-	3.59%-6.53%
Total	**8,161,169**		

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

15. FUNDS BORROWED (continued)

Repayment plan of medium and long-term borrowings is as follows:

	31 December 2012		31 December 2011	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2013	-	-	161,492	460,127
2014	94,021	98,307	92,808	96,014
2015	-	90,572	-	95,804
2016	66,515	-	53,886	17,225
Thereafter	165,828	1,007,507	184,391	635,434
Total	**326,364**	**1,196,386**	**492,577**	**1,304,604**

The Bank has signed an agreement with the International Finance Corporation (IFC) on 27 June 2005, for a subordinated loan. The facility is a USD 50 million subordinated loan, with a maturity of 15 July 2015 and with an interest rate of LIBOR+3.18%.

The Bank has obtained a primary subordinated loan by issuing a bond amounting to USD 100 million as of 31 July 2007. The investor of the bond is IFC. The maturity of the borrowing is indefinite with semi-annually interest payment. The interest rate is defined as LIBOR+3.5% until 31 July 2017. In case the borrowed amount is not repaid at that date, the interest rate will be revised as LIBOR + 5.25%. Notes are issued as perpetual.

The Bank has obtained secondary subordinated loans by issuing a bond amounting to EUR 75 million as of 4 November 2011 and a bond amounting to EUR 100 million as of 21 December 2011. The bond issue on 21 December 2011 amounting to EUR 100 million is added up with the first issue of EUR 75 million and together will be followed as EUR 175 million. Since the coupon rate of the issue amounting to EUR 100 million is semi-annual Euribor + 5.25% and two issues stated above will be merged and the merged issue will carry the coupon rate of the first issue (Euribor + 4.75% on an annual basis), the price of EUR 100 million issue has been determined as 96.026% (the price determined as the 12 month interest difference between two issues discounted by new issues semi-annual coupon rate of Euribor + 5.25%). As interest payment periods of the new issue will be same with the first one, 47-day interest accrual amounting to EUR 852,537.78 related to the period between 4 November 2011 and 21 December 2011 was paid to the Bank by the investor purchasing the second issue. On 21 December 2011, total net amount of EUR 96,878,527.78 is transferred to the bank accounts.

The Bank, during its Board of Directors' meeting dated 8 May 2012 has resolved to issue a debt instrument as Seconday Subordinated debt instrument with a value of USD 65 million on 14 May 2012. The semiannually interest rate of the issuance is determined as USD Libor + %5.75. The due date of the debt instrument is determined as 14 May 2024 and for the first seven years there is no option to repay before its due date. The debt instrument can be amortized on 14 May 2019 with the decision of the Board of Directors and upon the approval of Banking Regualtion and Supervision Agency.

The Parent Bank has resolved to issue a Secondary Subordinated Debt in the amount of EURO 100 million on 20 July 2012. The interest rate of the issuance has been determined as semi-annualy EURIBOR + 4.75%. The due date of the debt instrument is 20 July 2024 and there is no option to repay within the first seven years. The debt instrument can be amortized on 20 July 2019 with the resolution of the BoD and upon the approval of the BRSA.

Each of the five of the above facilities match BRSA's subordinated loan-capital definitions and contribute to the Bank's capital adequacy ratio in a positive manner, as well as creating long term financial.

As of 31 December 2012, the Bank has a syndication loan of EUR 250,000,000 and USD 122,000,000 obtained on 24 August 2012 with a maturity of 24 August 2013 under foreign borrowings.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

16. OTHER LIABILITIES AND PROVISIONS

	31 December 2012	31 December 2011
Other liabilities		
Cheque clearing account	829,261	317,262
Payables to credit card member firms	421,560	527,992
Payables to banks for credit cards receivables	349,427	122,725
Deferred insurance commission income	214,960	217,450
Taxes and compulsory surcharges other than on income	76,465	78,017
Bonus premium accrual	66,630	38,882
Trade and other payables	44,434	35,216
Other transitory accounts	33,420	23,703
Payables for promotions of credit cards and banking services	12,044	11,926
Collaterals for derivatives	6,797	48,223
Blocked bank cheques	4,131	44,382
Payment orders	1,097	2,004
Others	59,492	59,134
	2,119,718	**1,526,916**
Provisions		
Employee termination benefits	93,125	60,277
Provision for legal cases	45,612	43,577
Reserve for impairment of non-cash loans (specific and portfolio)	31,834	27,865
Unused vacation pay liability	28,114	28,144
Provision for restructuring	516	2,663
Provisions for possible outcomes of certain tax disputes	735	735
Other provisions	4,975	5,990
	204,911	**169,251**
Total	**2,324,629**	**1,696,167**

Employee Termination Benefits

In accordance with existing social legislation, TEB 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. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2,917.27 (full TL) and TL 2,805.04 (full TL) at 31 December 2012 and 2011, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of 31 December 2012 and 2011, 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 balance sheet date.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	31 December 2012	31 December 2011
Discount rate	6.91%	9.55%
Expected rate of inflation	4.78%	5.13%

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

16. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits (continued)

Movements in the present value of the employee termination benefit obligations in the current year were as follows:

	1 January-31 December 2012	1 January-31 December 2011
Opening defined benefit obligation	60,277	25,122
Increase due to the merger	-	24,450
Current service cost	8,594	7,064
Interest cost	5,590	4,471
Actuarial losses including settlement cost	30,630	15,849
Benefits paid	(11,966)	(16,679)
Closing defined benefit obligation, recognized in the balance sheet	**93,125**	**60,277**

Amounts recognized in profit and loss in respect of employee termination benefit plan are as follows:

	31 December 2012	31 December 2011
Current service cost	8,594	7,064
Interest cost	5,590	4,471
Actuarial losses including settlement cost	24,466	15,849
Total	**38,650**	**27,384**

Retirement Benefits

The employees who have joined the Bank as a consequence of the merger of TEB and Fortis Bank are members of the "Pension Fund Foundation" established in accordance with the Social Security Law No.506, Article No.20.

The liabilities described in the Note 2.3 Summary of Significant Accounting Policies, Judgements and Estimates – Employee Benefits section which may arise during the transfer have been calculated by the actuary based on the principles of the related regulation, whereas the liabilities in connection with other social rights and benefits which will not be undertaken by the SSI after the transfer have been calculated by the actuary based on IAS 19 principles. Based on the actuarial reports prepared as of 31 December 2012 and 31 December 2011, the Retirement Fund has a surplus. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

Based on the determined assumptions,

Transferrable Retirement and Health Liabilities:	31 December 2012	31 December 2011
Net Present Value of Transferrable Retirement Liabilities	(823,577)	(763,025)
Net Present Value of Transferrable Retirement and Health Contributions	534,823	635,342
General Administration Expenses	(8,235)	(7,630)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(296,989)	(135,313)
Fair Value of Plan Assets (2)	1,179,000	1,056,160
Asset Surplus over Transferable Benefits ((2)-(1)=(3))	882,011	920,847
Non-Transferable Benefits (4)	(183,383)	(172,455)
Asset Surplus over Total Benefits ((3)-(4))	698,628	748,392

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

16. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits (continued)

Distribution of total assets of the Retirement Fund as of 31 December 2012 and 31 December 2011 is presented below:

	31 December 2012	31 December 2011
Bank placements	1,060,309	901,672
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	43,563	79,084
Tangible assets	66,840	60,692
Other	8,288	14,712
Total	**1,179,000**	**1,056,160**

Actuarial assumptions used in valuation of liabilities except for transferrable liabilities based on IAS 19 are as follows:

	31 December 2012	31 December 2011
Discount Rate	7.00%	9.15%
Expected Inflation Rate	4.61%	5.00%

Medical inflation is expected more than 40% for two periods. In order to represent the expected mortality rates before and after the retirement, CSO 2001 (31 December 2011: CSO 1980) Female/Male mortality table is used.

17. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on each company's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate was 20% at 2012 and 2011.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2012 (2011: 20%).

Losses are allowed to be carried for maximum 5 years to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1st and 25th of the fourth month following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within the following five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, if any, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

As of 31 December 2012, effective tax rate of the consolidated foreign subsidiaries established in the Netherlands is 25.0 % (31 December 2011: 25.0%).

As of 31 December 2012 and 2011 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2012	31 December 2011
Income tax liability	248,683	31,897
Advance income taxes	(179,107)	(5,149)
	69,576	**26,748**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

17. INCOME TAXES (continued)

Major components of income tax expense for the year ended 31 December 2012 and 2011 are:

	31 December 2012	31 December 2011
Consolidated income statement		
Current income tax (charge)/benefit	(250,690)	(40,766)
Relating to origination and reversal of temporary differences	105,971	(37,617)
Income tax (charge)/benefit reported in consolidated income statement	**(144,719)**	**(78,383)**

Reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Profit before income tax	**716,495**	**364,201**
At Turkish statutory income tax rate of 20%	(143,299)	(72,840)
Income not subject to tax	140	59
Unused investment incentive	-	-
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	(1,560)	(5,602)
Income tax	**(144,719)**	**(78,383)**

Deferred income tax

Deferred income tax at 31 December 2012 and 2011 relates to the following:

	Consolidated Balance Sheet		Change in Deferred Income Tax	
	2012	2011	2012	2011
Deferred income tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	6,013	1,377	4,636	(1,338)
Gross deferred income tax liabilities	**6,013**	**1,377**	**4,636**	**(1,338)**
Deferred income tax assets				
Impairment provisions on loans and receivables	66,584	46,680	19,904	25,067
Deferred fee and commission income	61,451	57,618	3,833	55,299
Employee termination benefits and vacation pay liability	24,248	17,684	6,564	10,465
Bonus premium accrual	13,326	7,776	5,550	2,789
Effect of valuation of derivatives and hedge accounting	23,099	(10,554)	33,653	(12,200)
Valuation differences of trading and investment securities	13,172	7,175	5,997	(96)
Others	659	(7,621)	8,280	(2,176)
Gross deferred income tax assets	**202,539**	**118,758**	**83,781**	**79,148**
Effect of the merger	-	-	-	**(72,278)**
Deferred income tax asset, net	**196,526**	**117,381**	**79,145**	**8,208**

	31 December 2012	31 December 2011
Deferred income tax (charge)/ credit recognized in equity	(26,799)	45,533
Foreign exchange effect	(27)	292
Deferred income tax credit /(charge) recognized in income statement, net	105,971	(37,617)

Reflected as:

	31 December 2012	31 December 2011
Deferred tax asset	196,526	117,381
Deferred tax liability	-	-

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

	31 December 2012	31 December 2011
Balance at 1 January	117,381	36,895
Increase due to the merger	-	72,278
Deferred income tax (charge) / credit recognized in equity	(26,799)	45,533
Deferred income tax credit / (charge) recognized in income statement	105,971	(37,617)
Foreign exchange effect	(27)	292
Balance	**196,526**	**117,381**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

18. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. 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. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the 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.

	31 December 2012			31 December 2011		
Derivatives held-for-trading	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Forward contracts	33,801	38,238	6,285,148	34,330	25,133	4,647,307
Currency swap contracts	78,075	99,729	11,897,754	125,682	139,802	10,112,683
Cross currency swap contracts	133	15,496	364,205	2,655	4,018	544,730
Interest rate swap contracts	14,088	14,846	2,325,340	13,085	14,828	1,619,550
Call & put option contracts	40,613	66,506	17,125,565	146,662	90,018	15,011,495
	166,710	**234,815**	**37,998,012**	**322,414**	**273,799**	**31,935,765**

Derivatives settled on a gross basis

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:					
Foreign exchange derivatives:					
- Inflow	5,525,439	5,247,873	6,565,577	290,990	-
- Outflow	5,541,838	5,265,780	6,674,563	278,140	-
Interest rate derivatives:					
- Inflow	6,884	1,201	8,776	17,265	790
- Outflow	5,865	1,031	6,499	22,317	692
Derivatives held for hedging:					
Foreign exchange derivatives:					
- Inflow	13,878	37,149	151,519	933,322	3,443
- Outflow	20,796	34,849	128,454	921,920	2,228
Total inflow	**5,546,201**	**5,286,223**	**6,725,872**	**1,241,577**	**4,233**
Total outflow	**5,568,499**	**5,301,660**	**6,809,516**	**1,222,377**	**2,920**

Fair value hedge

The Group applies fair value hedge accounting in order to avoid the effects of interest rate changes in the market by matching a portion of its swap portfolio with its loan portfolio. As of 31 December 2012, nominal value of derivative instruments for hedging purposes is TL 1,441,536 (31 December 2011: TL 161,558) and net fair value is TL 32,389 liability (31 December 2011: TL 13,861 liability) while fair value of the hedged item loans is TL 16,309 (31 December 2011: TL 11,554). The Group has recognized TL 22,865 (31 December 2011: TL 18,797) income for derivative instruments for hedging purposes and TL 4,755 (31 December 2011: TL 22,094) expense from hedged loans in the financial statements. There is no fair value hedge ceased in 2012.

	31 December 2012			31 December 2011		
Derivatives used for fair value hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Cross currency swap contracts	5,064	47,696	1,441,536	8,011	19,117	101,558
Interest rate swap contracts	-	-	-	1,526	4,281	60,000
	5,064	**47,696**	**1,441,536**	**9,537**	**23,398**	**161,558**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

18. DERIVATIVES (continued)

Cash flow hedge

The Parent Bank has adopted cash flow hedge accounting by matching its swap portfolio having total buy-sell nominal amounting to TL 2,083,677 since 2011, and TL 1.100.000 since 2012 with the deposit portfolio having maturity of 28-32 days. Effective portion of TL 62,082 accounted for under equity is presented after deduction of its deferred tax effect of TL 12,416 in the financial statements. In 2012, the ineffective portion of TL 3,455 is accounted as expense in the income statement. There is no cash flow hedge ceased in 2012.

	31 December 2012			31 December 2011		
Derivatives used for cash flow hedging purposes	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent
Interest rate swap contracts	11,819	120,811	3,153,677	13,263	27,049	1,918,710
	11,819	**120,811**	**3,153,677**	**13,263**	**27,049**	**1,918,710**

19. SHARE CAPITAL

	31 December 2012	31 December 2011
Total number of shares, TL 1.00 (full TL) par value	2,204,390 Thousand	2,204,390 Thousand

Shares traded on the İstanbul Stock Exchange are in the form of units of two shares with a combined nominal value of TL 1.00 (full TL) each.

Following announcement of the Banking Regulation and Supervision Agency approval dated 10 February 2011 at the Official Gazette dated 12 February 2011 and numbered 27844, merger of two bank by means of transfer of all rights, receivables, liabilities and obligations to the Bank by dissolution of Fortis Bank A.Ş. has been effectuated with the relevant registration dated 14 February 2011 to İstanbul Trade Registry. Due to the merger, ceiling for the registered capital of the Bank is increased from TL 1,400,000, to TL 2,204,390, and the issued capital of the Bank is increased by TL 1,104,390, from TL 1,100,000 to TL 2,204,390.

Date of Increase	Amount of Increase	Cash	Transfer from Fortis Bank A.Ş.	Profit Reserves	Capital Reserves
14 February 2011	1,104,390	-	1,050,000	54,390	-

As of 31 December 2012 and 31 December 2011, the composition of shareholders and their respective ownerships are summarized below:

	31 December 2012		31 December 2011	
	Amount	%	Amount	%
TEB Holding A.Ş.	1,212,414	55.00	1,212,414	55.00
BNP Yatırımlar Holding A.Ş.	514,616	23.34	514,616	23.34
BNP Paribas Fortis Yatırımlar Holding A.Ş.	376,584	17.08	376,584	17.08
Publicly traded	99,556	4.52	99,556	4.52
Other shareholders	1,220	0.06	1,220	0.06
	2,204,390	**100.00**	**2,204,390**	**100.00**
Inflation restatement effect	200,262		200,262	
Total	**2,404,652**		**2,404,652**	

7% of the Bank's remaining net income after tax subsequent to deducting legal reserves and first dividends, corresponding to the Bank's shares of TL 30 (in full TL) is distributed to the founder shares.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

20. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement of Legal Reserves and Retained Earnings

	31 December 2012				31 December 2011			
	Legal Reserves	Other Capital Reserves	Retained Earnings	Total	Legal Reserves	Other Capital Reserves	Retained Earnings	Total
At 1 January	**130,033**	**1,084,258**	**945,518**	**2,159,809**	**60,825**	**-**	**731,635**	**792,460**
Effect of merger	-	-	-	-	53,526	1,084,258	-	1,137,784
Net effect of decrease in ownership of a subsidiary not resulting in loss of control	-	-	-	-	(1,223)	-	816	(407)
Issue of share capital	-	-	-	-	16,905	-	(71,295)	(54,390)
Transfer from retained earnings	13,522		(13,522)	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-
Net profit for the year (*)	-	-	570,235	570,235	-	-	284,362	284,362
At 31 December	**143,555**	**1,084,258**	**1,502,231**	**2,730,044**	**130,033**	**1,084,258**	**945,518**	**2,159,809**

(*) Net profit for the year regarding the period 31 December 2012 and 31 December 2011 does not include non-controlling interest income.

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the entity's share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% of all cash dividend distributions.

Dividends Paid and Proposed

Final dividends are not accounted for until they are ratified at the Annual General Meeting.

Movements of Unrealized Gains/ Losses on Available-for-Sale Investments, Net of Tax

	31 December 2012	31 December 2011
At 1 January	(105,281)	83,023
Net unrealized gains on AFS	205,086	(171,117)
Realized (gains) / losses on AFS recycled to income statement on disposal	(3,520)	(64,172)
Tax effect of net gains on AFS	(40,340)	46,985
Total	**55,945**	**(105,281)**

Movements of Cash Flow Hedge Fund Accounted Under Equity, Net of Tax

	31 December 2012	31 December 2011
At 1 January	4,505	-
(Losses) / gains on cash flow hedges	(67,714)	5,631
Tax effect of gains on cash flow hedges	13,543	(1,126)
Total	**(49,666)**	**4,505**

21. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below.

	Opening	Cash	Increase Related to Merger	Transfers from Retained Earnings	Transfers From Revaluation Surplus	Reinvestment of Dividend Payments	Total	Closing
Before 1995	-	150	-	3,000	250	-	3,400	3,400
1996	3,400	-	-	-	330	1,270	1,600	5,000
1997	5,000	-	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	-	529	682	7,277	14,000	25,000
1999	25,000	-	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	-	110,250
2003	110,250	-	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	-	115,600
2006	57,800	18,700	-	-	-	-	18,700	76,500
2007	76,500	210,000	-	216,750	251,750	-	678,500	755,000
2008	755,000	345,000	-	-	-	-	345,000	1,100,000
2009	1,100,000	-	-	-	-	-	-	1,100,000
2010	1,100,000	-	-	-	-	-	-	1,100,000
2011	1,100,000	-	1,050,000	54,390	-	-	1,104,390	2,204,390
2012	2,204,390	-	-	-	-	-	-	2,204,390

The following reflects the income (in full TL) and share data (in thousands) used in the basic earnings per share computations:

	31 December 2012	31 December 2011
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	0.2594	0.1382
Weighted average number of ordinary shares for basic earnings per share	2,204,390	2,068,232

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

22. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of the Bank. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities including Fortis Bank Group are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the normal course of its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at year-ends and relating expense and income for the years are as follows:

31 December 2012:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	697	4	3,091,034	471,343	2,118	46,624	535	80,014	9,645,058	3,684	52,259	5,304	6,479
Others	42,467	268,355	-	307,130	11,590	18	1	19	3,628	16,163	34,089	974	12,673

31 December 2011:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	74,499	4	4,246,133	430,246	1,913	102,904	530	116,827	10,170,151	2,911	134,323	2,565	3,377
Others	114,620	231,970	1,276,243	403,147	15,701	45	36	19,611	178,125	8,143	120,298	572	1,390

No provisions have been recognized in respect of loans given to related parties (31 December 2011: none).

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TL 35,762 as of 31 December 2012 (31 December 2011: TL 31,400) comprising mainly of salaries and other short-term benefits.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

23. SALARIES AND EMPLOYEE BENEFITS

	31 December 2012	31 December 2011
Wages and salaries	528,285	494,511
Cost of defined contribution plan (employers' share of social security premiums)	81,931	69,479
Bonuses	66,639	29,841
Provision for employee termination benefits	44,814	26,850
Other fringe benefits	68,404	72,051
Total	**790,073**	**693,266**

Total Salaries and Employee Benefits include merger and restructuring cost amounting to TL 19,589 (31 December 2011: TL 23,756).

24. OTHER OPERATING EXPENSES

	31 December 2012	31 December 2011
Maintenance and various administrative expenses	239,838	241,438
Rent expenses	143,115	139,045
Communication expenses	64,318	58,669
Advertisement expenses	67,106	41,238
Total	**514,377**	**480,390**

Total Other Operating Expenses include merger and restructuring cost amounting to TL 13,436 (31 December 2011: TL 39,039).

Apart from other operating expenses, as of 31 December 2011, "Taxes other than on income" and "Depreciation and amortization expense" include merger and restructuring costs amounting to TL 1,954 (31 December 2012: nil) and TL 4,978 (31 December 2012: nil) respectively.

25. NET GAIN/LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2012	31 December 2011
Remeasurement of foreign currency position	369,392	(58,795)
Derivatives – held for trading fair value	(402,083)	96,524
Derivatives – held for trading- interest	(22,659)	(56,300)
Derivatives – hedging instruments- fair value	(20,630)	8,368
Remeasurement of interest-rate risk hedged portfolios	4,755	(22,094)
Net gain/(loss) on securities held for trading	16,573	(74,905)
Change in fair value of AFS securities hedged by fair value hedge	2,783	-
Total	**(51,869)**	**(107,202)**

Gains less losses on trading securities arise primarily from fixed income securities.

26. FEES AND COMMISSIONS INCOME AND EXPENSES

	31 December 2012	31 December 2011
Fees and commissions income		
Banking	921,843	608,247
Fund management	29,103	40,955
Brokerage	25,115	26,964
Total	**976,061**	**676,166**
Fees and commissions expenses		
Banking	358,654	258,496
Other	29,238	20,901
Total	**387,892**	**279,397**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

27. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	31 December 2012	31 December 2011
Letters of guarantee issued	6,730,062	5,609,489
Letters of credit	1,532,317	1,578,340
Acceptance credits	903,219	342,297
Other guarantees	1,324,840	841,767
Total non-cash loans	**10,490,438**	**8,371,893**
Other commitments	6,981,176	5,465,945
Credit card limit commitments	2,933,697	2,661,586
Total	**20,405,311**	**16,499,424**

The Group has TL 174,050 (31 December 2011: TL 161,726) letters of guarantee obtained from other banks.

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 the accompanying financial statements.

The nominal values of the assets (excluding investment funds) held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 2,673,746 at 31 December 2012 (31 December 2011: TL 2,056,554). As of 31 December 2012, securities at custody include investment funds with market value of TL 9,924,214 (31 December 2011: TL 8,620,803).

The Group also manages forty five investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Letters of Guarantee Given to İstanbul Stock Exchange (ISE) and İstanbul Gold Market (IGM)

As of 31 December 2012, in line with the requirements of IGM, letters of guarantee amounting to TL 731 (31 December 2011: TL 774) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 31 December 2012, according to the general requirements of the ISE, letters of guarantee amounting to TL 26,531 (31 December 2011: TL 28,077) had been obtained from various local banks and were provided to ISE for bond and stock market transactions.

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice. The Group has provided TL 45,612 (31 December 2011: TL 43,577) provision for legal cases.

27. COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

Following a resolution in favor of the Bank in 2003 for the case related to deduct accumulated losses from the corporate tax base for 2002 and for subsequent periods in accordance with Corporate Tax Law article 14/7; the Ministry of Finance appealed against the decision, however, the case was again concluded in favor of the Bank by Tax Supreme Court. In this context, the Bank acquired the right to deduct accumulated losses amounting to TL 364,501 thousand from the corporate tax base. Related accumulated losses have been deducted from tax base by Fortis Bank A.Ş. between the years 2003 and 2006.

On the other hand, the Tax Office has not taken into consideration the deduction amount of TL 144,824 which is included in the 2003/4 temporary tax declaration based on the resolution of the Tax Supreme Court, and recalculated a temporary corporate tax liability of TL 15,510 and levied a fine of TL 16,131 to the Bank. In that respect, the Bank has filed a counter case against the Tax Office, and 1st Tax Office decided in favor of the Bank with resolution no: K:2006/974 based on its decision related with 2001/I period explained above .

The Tax Office filed an appeal against the ruling; however, the 4th Administration of Council of State resolution no: K:2007/4747 ruled that the defendant's claim on the Management's double loss deduction should be initially reviewed and a new ruling should be made accordingly. Therefore the tax office's resolution is overruled by the Council of State.

Although the 1st Tax Office of İstanbul had reviewed the related issues upon the Council of State's overruling and conducted the litigation in favor of the Bank upon its resolution no: K:2010/2377, TL 48,557 of loss amount is considered as undeductible in the basis of the resolution. Therefore, the Bank has filed an appeal on 4 October 2010 for the overruling of the related resolution basis and the outcome of the appeal is still in process. As the Group management foresees no significant risk in relation to the related lawsuits, no provision is provided in the financial statements. The Group has increased the tax base by TL 2,863 in regards to the related lawsuit in accordance with the requirements of the Communiqué No:6111 "Restructuring of Specific Receivables and Social Insurance and General Health Insurance Law and Amendments to Some Other Laws and Requirements".

Other

The branch premises that are leased under operational leases periods vary between 1 and 10 years and lease agreements are cancelable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

According to the decision numbered 11-55/1438 dated 2 November 2011 of the Competition Board, investigation on some enterprises in banking sector, including the parent bank, allegedly violating the "Law about Preserving the Competition" numbered 4054 is continuing. Considering the investigation and uncertainty of the case, no provision is necessary as of 31 December 2012.

28. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of matters reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

The mission of the Group Risk Management is to inform Board of Directors, General Management and the Audit Committee of the status of risks to which the Group is exposed and to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives. It compiles regulatory statements and financial reporting regarding risk management and measurement.

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Group. They have the ultimate responsibility of ensuring that senior management establishes and maintains an adequate and effective system of internal control.

The responsibility of the Audit Committee is to coordinate all the risk management activities within the bank and supervise the parties involved in Internal Control. In doing so, the Committee ensures establishment of an efficient and effective risk management.

Credit Risk

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Bank and operating companies.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the Bank and operating companies. Along with the Credit Committee, Financial Institutions and Country Risk Committee work as a sub-committee on a Group basis.

Credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of Corporate and SME clients.

Counterparty limits are daily monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are closely monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored on a daily basis.

The credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending.

In order to control the concentration risk, sectoral limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to customer groups in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, and impairment allowances as well as default and recovery rates.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Each operating company is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolio and controlling all credit risks.

After a loan facility is offered, the Credit Monitoring Department monitors the customer's repayment capability and the sufficiency and adequacy of the collateral. In this way, any problematic loan is identified at an early stage.

Both collective and specific provisions are made with methodologies which are compliant with both IFRS standards and BNP Paribas methodologies.

Netting is a technique used by the Group to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

An industry sector analysis of the Group's financial assets, non-cash loans and commitments are as follows;

	31 December 2012	31 December 2011
Ores & Materials	14,369,112	12,096,895
Private individuals	12,827,200	10,879,760
Government	4,801,543	5,673,472
Banks	7,827,814	5,237,961
Food	4,349,572	3,765,324
Finance	3,146,533	2,864,368
Construction & public works	3,721,163	2,714,426
Wholesaler	2,569,745	1,969,795
Transportation	2,253,979	1,890,527
Chemical	1,415,025	1,323,231
Equipment materials	1,231,010	1,146,601
Automotive	962,361	841,454
Technology	697,067	634,867
Energy	411,280	481,752
Healthcare & Pharmacy	40,340	19,402
Property	19,775	-
Hotels, Tourism, Leisure	1,767	4,044
Others	3,767,600	3,504,861
Total	**64,412,886**	**55,048,740**

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	31 December 2012	31 December 2011
Cash and balances with Central Banks (excluding cash on hand)	4,068,951	3,411,784
Loans and receivables due from banks	1,874,745	969,988
Other money market placements	1,700,525	510,975
Financial assets at fair value through profit and loss	639,005	1,276,717
Derivative used for hedging purposes	16,883	22,800
Available -for-sale financial assets	4,308,832	4,697,945
Held-to-maturity investments	20,416	21,224
Loans and receivables and factoring receivables	30,238,301	26,912,384
Remeasurement adjustment on interest-rate risk hedged portfolios	16,309	11,554
Other assets	1,123,608	713,945
Total	**44,007,575**	**38,549,316**
Contingent liabilities	10,490,438	8,371,893
Commitments	9,914,873	8,127,531
Total	**20,405,311**	**16,499,424**
Total credit risk exposure	**64,412,886**	**55,048,740**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 31 December 2012 and 2011 are as follows;

31 December 2012	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	1,700,525	-	-	1,700,525
Loans and receivables due from banks	1,874,745	-	-	1,874,745
Financial assets designated at fair value through profit or loss	639,005	-	-	639,005
Derivative financial instruments held for hedging	16,883	-	-	16,883
Loans and receivables	28,184,781	1,545,395	(245,481)	29,484,695
Commercial	18,905,172	896,098	(162,014)	19,639,256
Consumer	7,599,960	378,799	(52,800)	7,925,959
Credit Cards	1,591,411	270,498	(30,667)	1,831,242
Other	88,238	-	-	88,238
Factoring receivables	739,881	15,570	(1,845)	753,606
Remeasurement adjustment on interest rate risk hedged portfolio	16,309	-	-	16,309
Investment securities				
Available-for-sale	4,308,832	-	-	4,308,832
Held-to-maturity	20,416	-	-	20,416
Total	**37,501,377**	**1,560,965**	**(247,326)**	**38,815,016**

31 December 2011	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	510,975	-	-	510,975
Loans and receivables due from banks	969,988	-	-	969,988
Financial assets designated at fair value through profit or loss	1,276,717	-	-	1,276,717
Derivative financial instruments held for hedging	22,800	-	-	22,800
Loans and receivables	24,845,934	1,470,464	(222,447)	26,093,951
Commercial	17,583,187	790,441	(162,300)	18,211,328
Consumer	5,997,453	491,383	(36,043)	6,452,793
Credit Cards	1,212,389	188,640	(24,104)	1,376,925
Other	52,905	-	-	52,905
Factoring receivables	813,999	6,497	(2,063)	818,433
Minimum lease payments receivable	-	-	-	-
Remeasurement adjustment on interest rate risk hedged portfolio	11,554	-	-	11,554
Investment securities				
Available-for-sale	4,697,945	-	-	4,697,945
Held-to-maturity	21,224	-	-	21,224
Total	**33,171,136**	**1,476,961**	**(224,510)**	**34,423,587**

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2012	31 December 2011
Loans and receivables		
Commercial	170,772	75,913
Consumer	315,599	27,326
Credit Cards	-	2,741
Total	**486,371**	**105,980**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit Rating System

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2012, consumer loans and business loans are excluded from the internal rating system of the Bank and those loans are 37% of total loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total %
1st Category	The borrower has a very strong financial structure	35.52
2nd Category	The borrower has a good financial structure	24.93
3rd Category	The borrower has an intermediate level of financial structure	32.92
4th Category	The financial structure of the borrower has to be closely monitored in the medium run	6.63
	Total	**100.00**

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflow to fulfill the cash outflow completely on time.

The Group's policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self-sufficient with regard to funding requirements for its own operations.

The Group's liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

Asset and Liability Management Committee (ALCO) defines ALM policies and monitor the results weekly. Asset Liability Management and Treasury (ALM/T) Group has the responsibility for managing funding on money markets and financial markets from short to medium and long term financing and also provides funds to core business lines at TEB and Economy Bank and to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

The main source of funding to cover the liquidity requirements is customer deposits and in addition to this source, issuing bonds, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source. Generally the Group does not prefer the liquidity generated from interbank money markets to become the main form of funding and accordingly the Group is generally a net lender in interbank money markets.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important among these is to maintain limits on the ratio of the Bank's net liquid assets to customer liabilities, set to reflect market conditions. The ratio realized during the year was as follows:

	31 December 2012 %	31 December 2011 %
Average during the year	23	25
Highest	30	30
Lowest	17	20

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated	Total
As at 31 December 2012						
Assets:						
Cash and balances with central banks	4,710,334	-	-	-	-	4,710,334
Loans and receivables due from banks	1,283,810	65,365	434,923	79,510	11,137	1,874,745
Other money market placements	1,700,525	-	-	-	-	1,700,525
Financial assets at fair value through profit and loss	29,814	101,044	400,857	107,290	-	639,005
Derivatives used for hedging purposes	-	-	714	16,169	-	16,883
Available-for-sale financial assets	144,922	284,166	1,473,679	2,381,462	24,603	4,308,832
Loans and receivables	10,287,705	1,245,301	4,876,744	12,863,523	211,422	29,484,695
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	16,309	-	16,309
Held-to-maturity investments	-	-	20,416	-	-	20,416
Factoring receivables	421,330	236,115	92,790	-	3,371	753,606
Premises and equipment	-	-	-	-	256,273	256,273
Intangible assets	-	-	-	-	25,012	25,012
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	196,526	196,526
Other assets	1,588	718	176	7	1,121,119	1,123,608
Total assets	**18,580,028**	**1,932,709**	**7,300,299**	**15,464,270**	**2,270,108**	**45,547,414**
Liabilities:						
Deposits from other banks	861,926	27,165	7,073	35,622	-	931,786
Customers' deposits	19,378,222	8,049,215	1,447,678	153,033	-	29,028,148
Other money market deposits	40,916	-	-	-	-	40,916
Financial liabilities at fair value through profit and loss	54,635	51,410	89,467	39,303	-	234,815
Derivatives used for hedging purposes	-	-	4,812	163,695	-	168,507
Factoring payables	3,988	-	-	-	-	3,988
Marketable securities issued	494,237	-	-	-	-	494,237
Funds borrowed	907,927	2,404,421	2,235,060	1,521,889	-	7,069,297
Other liabilities	2,112,222	1,650	5,844	2	-	2,119,718
Provisions	-	-	-	-	204,911	204,911
Income taxes payable	-	69,209	367	-	-	69,576
Total liabilities	**23,854,073**	**10,603,070**	**3,790,301**	**1,913,544**	**204,911**	**40,365,899**
Net liquidity gap	**(5,274,045)**	**(8,670,361)**	**3,509,998**	**13,550,726**	**2,065,197**	**5,181,515**
As at 31 December 2011						
Total assets	15,349,373	2,102,765	6,194,773	14,776,774	1,761,179	40,184,864
Total liabilities	24,970,316	5,407,083	3,145,452	1,961,581	181,713	35,666,145
Net liquidity gap	**(9,620,943)**	**(3,304,318)**	**3,049,321**	**12,815,193**	**1,579,466**	**4,518,719**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustments	Total
As of 31 December 2012								
Customers' deposits	4,622,556	14,790,598	8,148,705	1,492,474	165,314	14	(191,513)	29,028,148
Deposits from other banks	193,156	669,073	27,767	7,296	36,028	-	(1,534)	931,786
Funds borrowed	-	602,227	915,085	4,016,500	954,822	1,210,239	(629,576)	7,069,297
Other money market deposits	-	40,916	-	-	-	-	-	40,916
Total	**4,815,712**	**16,102,814**	**9,091,557**	**5,516,270**	**1,156,164**	**1,210,253**	**(822,623)**	**37,070,147**
As of 31 December 2011								
Customers' deposits	4,286,199	14,834,731	3,423,247	418,239	110,527	-	(107,920)	22,965,023
Deposits from other banks	192,716	931,943	3,780	4,314	-	-	(326)	1,132,427
Funds borrowed	-	1,852,212	2,024,544	2,806,047	1,238,554	1,063,599	(823,787)	8,161,169
Other money market deposits	-	1,105,719	-	-	-	-	(971)	1,104,748
Total	**4,478,915**	**18,724,605**	**5,451,571**	**3,228,600**	**1,349,081**	**1,063,599**	**(933,004)**	**33,363,367**

Analysis of contractual expiry by maturity of the Group's some class of derivative financial instruments;

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As of 31 December 2012						
Hedging Portfolio						
Fair value hedge	1,804	13,835	30,126	1,486,575	-	1,532,340
Cash flow hedge	18,992	21,014	98,328	158,780	2,228	299,342
Trading Portfolio						
Forward contracts	1,011,976	1,007,121	1,071,242	56,403	-	3,146,742
Currency swaps	2,140,278	1,194,078	2,617,801	220,795	-	6,172,952
Interest rate swaps	5,790	1,031	6,260	22,170	692	35,943
Foreign currency futures-sell	-	-	-	-	-	-
Foreign currency options-sell	2,389,585	3,064,581	2,985,520	942	-	8,440,628
Total	**5,568,425**	**5,301,660**	**6,809,277**	**1,945,665**	**2,920**	**19,627,947**
As of 31 December 2011						
Hedging Portfolio						
Fair value hedge	-	-	13,723	132,443	-	146,166
Cash flow hedge	6,261	11,362	69,042	160,037	5,562	252,264
Trading Portfolio						
Forward contracts	1,095,273	501,255	553,167	181,084	-	2,330,779
Currency swaps	2,338,734	1,001,159	1,798,633	196,565	-	5,335,091
Interest rate swaps	136	8,364	15,876	23,312	-	47,688
Foreign currency futures-sell	-	-	-	-	-	-
Foreign currency options-sell	2,438,145	1,511,274	3,277,327	36,802	-	7,263,548
Total	**5,878,549**	**3,033,414**	**5,727,768**	**730,243**	**5,562**	**15,375,536**

Market Risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by Banking Regulation and Supervision Agency (BRSA), Capital Markets Board and other authorities. Only securities held to maturity are valued at amortized cost using internal rate of return.

The Board of Directors evaluates the probable risks and accordingly determines limits. Those limits are revised periodically in line with the strategies of the Group. The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

The Group Risk Management calculates and follows the several market risk limits set by the Board of Directors. Some of those are VaR, PV01, Interest Rate Delta and Vega limits. Finally, nominal stop loss and position limits for each product have been set.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group evaluates the exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate fluctuations in the market.

The Board of Directors sets limits for the positions, which are followed up on a daily basis. Additionally, any possible changes in positions are closely monitored.

Generally, Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	Turkish Lira	Euro	US Dollars	Other	Total
As at 31 December 2012					
Assets:					
Cash and balances with central banks	799,615	1,671,606	1,445,080	794,033	4,710,334
Loans and receivables due from banks	973,138	284,795	515,026	101,786	1,874,745
Other money market placements	1,700,525	-	-	-	1,700,525
Financial assets at fair value through profit and loss	599,279	10,033	29,080	613	639,005
Derivatives used for hedging purposes	16,726	-	157	-	16,883
Available-for-sale financial assets	4,247,116	51,119	6,964	3,633	4,308,832
Loans and receivables	21,661,935	3,073,906	3,975,420	773,434	29,484,695
Remeasurement adjustment on interest rate risk hedged portfolios	16,309	-	-	-	16,309
Held-to-maturity investments	-	9,704	10,712	-	20,416
Factoring receivables	492,679	135,155	116,835	8,937	753,606
Premises and equipment	248,208	8,065	-	-	256,273
Intangible assets	24,204	808	-	-	25,012
Goodwill	420,645	-	-	-	420,645
Deferred tax asset	192,299	4,227	-	-	196,526
Other assets	920,235	108,946	94,061	366	1,123,608
Total assets	**32,312,913**	**5,358,364**	**6,193,335**	**1,682,802**	**45,547,414**
Liabilities:					
Deposits from other banks	788,839	75,658	27,857	39,432	931,786
Customers' deposits	20,253,431	2,901,926	4,847,389	1,025,402	29,028,148
Other money market deposits	40,916	-	-	-	40,916
Financial liabilities at fair value through profit and loss	229,701	1,644	2,921	549	234,815
Derivatives used for hedging purposes	168,507	-	-	-	168,507
Factoring payables	473	2,821	302	392	3,988
Marketable securities issued	494,237	-	-	-	494,237
Funds borrowed	721,444	3,890,109	1,923,118	534,626	7,069,297
Other liabilities	2,089,461	16,954	11,768	1,535	2,119,718
Provisions	203,893	969	41	8	204,911
Income taxes payable	69,576	-	-	-	69,576
Total liabilities	**25,060,478**	**6,890,081**	**6,813,396**	**1,601,944**	**40,365,899**
Net balance sheet position	**7,252,435**	**(1,531,717)**	**(620,061)**	**80,858**	**5,181,515**
Off-balance sheet position					
Net notional amount of derivatives	(2,755,617)	1,928,082	782,648	(63,122)	(108,009)
Non-cash loans	4,032,796	3,018,025	3,275,566	164,051	10,490,438
Net position	**4,496,818**	**396,365**	**162,587**	**17,736**	**5,073,506**
At 31 December 2011					
Total assets	27,075,456	4,892,180	7,012,378	1,204,850	40,184,864
Total liabilities	20,953,700	5,897,092	7,855,596	959,757	35,666,145
Net balance sheet position	**6,121,756**	**(1,004,912)**	**(843,218)**	**245,093**	**4,518,719**
Off-balance sheet position					
Net notional amount of derivatives	(2,193,261)	1,647,059	876,693	(237,808)	92,683
Non-cash loans	3,443,715	1,963,272	2,817,188	147,718	8,371,893
Net position	**3,928,495**	**642,147**	**33,475**	**7,285**	**4,611,402**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table indicates in detail the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	Increase /(Decrease) Effect on profit or loss		Increase /(Decrease) Effect on equity excluding PL	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
USD	10 increase	15,858	3,336	401	12
USD	10 decrease	(15,858)	(3,336)	(401)	(12)
EUR	10 increase	39,541	64,711	95	(496)
EUR	10 decrease	(39,541)	(64,711)	(95)	496

The Group's sensitivity to foreign currency rates has not changed significantly during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

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 a change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of a change in market interest rates. The Group evaluates the exposure for the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position.

Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The ALCO is responsible of managing interest rate risk at the Bank.

The first principle of the Group regarding interest rate risk is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board of Directors, ALCO and the Audit Committee.

Maturities of outstanding assets are based on the contractual characteristics of the transactions.

i) The Bank only economic value differences resulted from interest rate instabilities calculated according to "Regulation on measurement and evaluation of interest rate risk resulted from the banking accounts as per standard shock method"

Type of Currency	Shock Applied (+/- x basis point)	Gains/ (Losses)	Gains/Equity–(Losses)/Equity
TRY	500	(638,276)	%(11.31)
TRY	(400)	599,877	%10.63
EURO	200	(14,531)	%(0.26)
EURO	(200)	16,884	%0.30
USD	200	(15,508)	%(0.27)
USD	(200)	16,776	%0.30
Total (of negative shocks)	**(800)**	**633,537**	**%11.22**
Total (of positive shocks)	**900**	**(668,315)**	**%(11.84)**

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2012						
Assets :						
Cash and balances with central banks	182,710	-	-	-	4,527,624	4,710,334
Loans and receivables due from banks	1,112,276	65,365	434,923	53,619	208,562	1,874,745
Other money market placements	1,700,525	-	-	-	-	1,700,525
Financial assets at fair value through profit and loss	10,609	73,402	323,414	84,241	147,339	639,005
Derivatives used for hedging purposes	-	-	714	11,263	4,906	16,883
Available-for-sale financial assets	614,326	592,162	1,692,743	1,384,998	24,603	4,308,832
Loans and receivables	10,493,290	1,953,024	4,847,685	12,151,115	39,581	29,484,695
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	16,309	-	16,309
Held-to-maturity investments	-	-	20,416	-	-	20,416
Factoring receivables	421,330	236,115	92,790	-	3,371	753,606
Premises and equipment	-	-	-	-	256,273	256,273
Intangible assets	-	-	-	-	25,012	25,012
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	196,526	196,526
Other assets	523	-	-	-	1,123,085	1,123,608
Total Assets	**14,535,589**	**2,920,068**	**7,412,685**	**13,701,545**	**6,977,527**	**45,547,414**
Liabilities:						
Deposits from other banks	668,839	27,165	7,073	35,622	193,087	931,786
Customers' deposits	15,243,909	8,049,215	1,447,678	153,033	4,134,313	29,028,148
Other money market deposits	40,916	-	-	-	-	40,916
Financial liabilities at fair value through profit and loss	1,398	132	1,082	28,467	203,736	234,815
Derivatives used for hedging purposes	-	-	4,812	153,453	10,242	168,507
Factoring payables	3,988	-	-	-	-	3,988
Marketable securities issued	287,660	-	206,577	-	-	494,237
Funds borrowed	1,271,312	3,650,455	1,420,074	727,456	-	7,069,297
Other liabilities	6,548	1,650	5,844	2	2,105,674	2,119,718
Provisions	-	251	-	-	204,660	204,911
Income taxes payable	-	516	367	-	68,693	69,576
Total liabilities	**17,524,570**	**11,729,384**	**3,093,507**	**1,098,033**	**6,920,405**	**40,365,899**
Balance sheet interest sensitivity gap	**(2,988,981)**	**(8,809,316)**	**4,319,178**	**12,603,512**	**57,122**	**5,181,515**
As at 31 December 2011						
Total assets	11,801,083	2,825,372	6,409,463	12,826,385	6,322,561	40,184,864
Total liabilities	19,945,083	5,831,373	3,453,312	643,628	5,792,749	35,666,145
Net interest sensitivity gap	**(8,144,000)**	**(3,006,001)**	**2,956,151**	**12,182,757**	**529,812**	**4,518,719**

Capital Adequacy

The method used in calculating the consolidated capital adequacy standard ratio is in accordance with the BRSA regulations which are based on Basel II rules. With the regulations published in the Official Gazette dated 28 June 2012, BRSA has introduced a Basel II based method for the banking system. The Group's consolidated capital adequacy ratio is calculated as 14.84% in accordance with the related Communiqué as of 31 December 2012. As of 31 December 2011, consolidated capital adequacy ratio was calculated as 13.98% in accordance with the previous regulation mainly based on Basel I rules.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

28. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate and/or failed internal process and systems, arising from negligence or fraud of the staff members or stemming from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning, business continuity and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

The Compliance Function in Group Companies

The definition of compliance is adherence to statutory and regulatory provisions, professional and ethical standards, guidelines issued by the Board of Directors and Audit Committee and internal rules and procedures.

The Compliance Function is responsible for the coordination of permanent control among the Group in respect of the risk of non-compliance and operational risk. It shares this responsibility with other Functions like Risk Management, Legal, Operations, and Finance for their areas of competence. Its missions and responsibilities and delegations of powers it grants are specified in a responsibilities charter.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Financial assets				
Loans and receivables due from banks	1,874,745	969,988	1,874,745	969,988
Other money market placements	1,700,525	510,975	1,700,525	510,975
Loans and receivables	29,484,695	26,093,951	29,664,478	25,731,565
Investment securities held-to-maturity	20,416	21,224	20,528	21,713
Factoring receivables	753,606	818,433	753,606	818,433
Financial liabilities				
Deposits from other banks and funds borrowed	8,001,083	9,293,596	8,001,477	9,293,921
Customers' deposits	29,028,148	22,965,023	29,036,040	22,865,687
Other money market deposits	40,916	1,104,748	40,916	1,104,748

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and 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.

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Values (continued)

Deposits and Borrowings

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

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central banks, loans and receivables due from banks, other money market placements, factoring receivables and payables are considered to approximate their respective carrying values due to their short-term nature.

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

• Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

• Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

• Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	472,295	166,710	-	639,005
Debt instruments	472,295	-	-	472,295
Derivatives held-for-trading	-	166,710	-	166,710
Derivatives used for hedging purposes	-	16,883	-	16,883
Available-for-sale financial assets	4,286,049	14,099	-	4,300,148
Debt instruments	4,279,355	4,874	-	4,284,229
Available-for-sale securities (*)	6,694	9,225	-	15,919
Remeasurement adjustment on interest rate risk hedged portfolios	-	16,309	-	16,309
Total	**4,758,344**	**214,001**	-	**4,972,345**
Financial liabilities at fair value through profit and loss				
Derivatives held-for-trading	-	234,815	-	234,815
Derivatives used for hedging purposes	-	168,507	-	168,507
Total	-	**403,322**	-	**403,322**

31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	754,577	522,214	-	1,276,791
Debt instruments	754,577	199,800	-	954,377
Derivatives held-for-trading	-	322,414	-	322,414
Derivatives used for hedging purposes	-	22,800	-	22,800
Available-for-sale financial assets	3,679,076	1,008,370	-	4,687,446
Debt instruments	3,673,789	999,143	-	4,672,932
Available-for-sale securities (*)	5,287	9,227		14,514
Remeasurement adjustment on interest rate risk hedged portfolios	-	11,554	-	11,554
Total	**4,433,653**	**1,564,938**	-	**5,998,591**
Financial liabilities at fair value through profit and loss	-	273,799	-	273,799
Derivatives held-for-trading	-	273,799	-	273,799
Derivatives used for hedging purposes	-	50,447	-	50,447
Total	-	**324,246**	-	**324,246**

(*) TL 8,684 (31 December 2011: TL 10,499) carried at cost is not included in the table.

There is no transition between Level 1 and Level 2 in the current year.

30. SUBSEQUENT EVENTS

i) The bond issued by the Bank on 14 January 2013 with a nominal value of TL 364,702, maturity of 174 days with due date of 8 July 2013, with an interest rate of 6.71386%, and with an annual compound rate of 6.83192% has started to be publicly traded in bonds and bills market with ISIN code of "TRQTEBK71318".

ii) It is declared that merger operation of Fortis Faktoring A.Ş. and the Bank's subsidiary TEB Faktoring A.Ş. is started and share purchase agreement regarding share transfer before merger dated 31 January 2013 is signed Teb Faktoring A.Ş., subsidiary of Fortis Faktoring A.Ş. and the Parent Bank, According to share purchase agreement, TL 14,499.996 of TL 14,500 nominal value of Fortis Faktoring A.Ş.'s share is to be buyed by TEB Faktoring A.Ş.. As a consequence of the share transfer, the Bank would be 100% shareholder indirectly. After the declared share transfer, TEB Faktoring A.Ş. and Fortis Faktoring A.Ş. are planned to be merged under TEB Faktoring A.Ş.

iii) The bond issued by The Bank on 4 March 2013 with a nominal value of TL 99,711, maturity of 405 days, with due date of 14 April 2014, with an interest rate of 6.84908% and with an annual compound rate of 6.82406% has started to be publicly traded in bonds and bills market with ISIN code of "TRSTEBK41416".