



**TÜRKİYE SİNAİ KALKINMA BANKASI
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

**Consolidated Financial Statements
As at and For the Year Ended
31 December 2012
With Independent Auditors' Report**

**Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi**

30 April 2013

This report contains 1 page of independent auditors' report on consolidated financial statements and 94 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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**Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik A.Ş.**
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 29
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
Internet www.kpmg.com.tr

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Sınai Kalkınma Bankası Anonim Şirketi ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve ŞMMM A.Ş.

Istanbul,
30 April 2013

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

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

ASSETS	Notes	31 December 2012	31 December 2011
Cash and cash equivalents	5	250	347
Balances with central bank	6	27,798	7,853
Reserve deposits at central bank	6	104,618	112,909
Loans and advances to banks	7	440,075	425,226
Interbank money market placements	5	-	102,437
Funds lent under repurchase agreements	5	199	6,928
Financial assets at fair value through profit or loss		41,169	150,325
- <i>Trading assets</i>	8	17,926	104,972
- <i>Derivative assets</i>	31	23,243	45,353
Loans and advances to customers	9	6,807,430	6,281,981
Investment securities	10	2,885,281	2,445,193
- <i>Available for sale investment securities</i>		2,885,281	2,318,238
- <i>Held to maturity investment securities</i>		-	126,955
Investments in equity-accounted investees	11	210,047	190,522
Goodwill	12	383	383
Property and equipment	13	23,961	24,738
Investment property	14	240,370	226,805
Intangible assets	15	1,016	870
Other assets	16	53,249	127,570
Deferred tax assets	21	1,279	10,282
Total assets		10,837,125	10,114,369

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

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

LIABILITIES	Notes	31 December 2012	31 December 2011
Obligations under repurchase agreements	17	1,235,179	947,754
Derivative liabilities	31	20,997	48,743
Funds borrowed	18	7,029,605	6,785,535
Payables to stock exchange money market		267,449	420,609
Current account of loan customers	33	9,745	7,894
Taxes and dues payable		3,517	4,085
Employee benefits	22	15,234	11,579
Corporate tax liability	21	29,690	13,583
Provisions		190	751
Other liabilities	20	106,594	142,941
Subordinated loan	23	89,125	95,000
Total liabilities		8,807,325	8,478,474
EQUITY			
Share capital			
Nominal paid in capital	24	1,100,000	800,000
Inflation adjustment to capital	24	13,563	13,563
Total capital		1,113,563	813,563
Share premium		388	413
Legal reserves		125,628	98,551
Fair value reserve		133,754	17,626
Retained earnings		572,240	607,615
Total equity attributable to equity holders of the Bank		1,945,573	1,537,768
Non-controlling interests	24	84,227	98,127
Total equity		2,029,800	1,635,895
Total liabilities and equity		10,837,125	10,114,369
Commitment and contingencies	30	6,992,983	10,734,291

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

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

	Notes	1 January – 31 December 2012	1 January – 31 December 2011
Interest income			
Interest income on loans		332,958	288,562
Interest on money market placements		6,857	3,959
Interest income on securities		248,776	208,556
Interest income on deposits at banks		23,168	31,249
Interest income on finance leases		1,066	2,144
Other interest income		212	231
Total interest income	28	613,037	534,701
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(94,733)	(90,231)
Interest expense on funds borrowed and subordinated loan		(93,343)	(80,394)
Interest expense on debt securities issued		-	(3,922)
Other interest expenses		(117)	(35)
Total interest expense	28	(188,193)	(174,582)
Net interest income		424,844	360,119
Fee and commission income		29,842	30,350
Fee and commission expense		(3,322)	(2,098)
Net fee and commission income	28	26,520	28,252
Securities trading income / (losses), net		2,818	(5,030)
Derivative trading income / (losses), net		48,739	(54,430)
Foreign exchange gains / (losses), net		(25,248)	39,438
Net trading income	28	26,309	(20,022)
Net impairment losses on loans and advances to customers		(2,088)	(22,390)
Net operating income after impairment losses		475,585	345,959
Other operating income	25	29,274	81,143
Other operating expenses	27	(100,052)	(92,740)
Dividend income	26	6,014	5,222
Share of profit of equity-accounted investees	11	20,271	20,924
Profit before income tax		431,092	360,508
Income tax expense	21	(75,226)	(70,880)
Profit for the year		355,866	289,628
Profit attributable to:			
Equity holders of the Bank		347,720	291,771
Non-controlling interests		8,146	(2,143)
Profit for the year		355,866	289,628
Weighted average number of shares outstanding	34	1,100,000,000	1,100,000,000
Basic and diluted earnings per share	34	0.3235	0.2633

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

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

	1 January – 31 December 2012	1 January – 31 December 2011
Profit for the year	355,866	289,628
Other comprehensive income		
Change in unrealized gain / (losses) on available for sale investments	145,177	(59,538)
Net gain / (losses) on available for sale investment securities transferred to profit or loss	(756)	(1,770)
Non-controlling interest share on fair value change in subsidiaries	(230)	(3,059)
Income tax on other comprehensive income	(28,063)	10,550
Other comprehensive income for the year, net of tax	116,128	(53,817)
Total comprehensive income for the year	471,994	235,811
Attributable to		
Equity holders of the Bank	463,848	237,954
Non-controlling interests	8,146	(2,143)
Total comprehensive income for the year	471,994	235,811

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

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

	Notes	Attributable to equity holders of the Bank						Non-controlling interests	Total equity
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Retained earnings		
Balance at 1 January 2011		700,000	13,563	413	76,134	71,443	485,460	1,347,013	1,448,265
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	291,771	291,771	289,628
Other comprehensive income									
Change in unrealized gain / (losses) on available for sale investments		-	-	-	-	(59,538)	-	(59,538)	(59,538)
Net gain on available for sale investment securities transferred to profit or loss		-	-	-	-	(1,770)	-	(1,770)	(1,770)
Non-controlling interest share on fair value change in subsidiaries		-	-	-	-	(3,059)	-	(3,059)	(3,059)
Income tax on other comprehensive income		-	-	-	-	10,550	-	10,550	10,550
Total other comprehensive income		-	-	-	-	(53,817)	-	(53,817)	(53,817)
Total comprehensive income for the year		-	-	-	-	(53,817)	291,771	237,954	235,811
Transactions with owners, recognized directly in equity									
Capital increase	24	100,000	-	-	-	-	(100,000)	-	-
Dividend distribution		-	-	-	-	-	(47,199)	(982)	(48,181)
Total contributions by and distributions to owners		100,000	-	-	-	-	(147,199)	(982)	(48,181)
Transfer to legal reserves		-	-	-	22,417	-	(22,417)	-	-
Balance at 31 December 2011	24	800,000	13,563	413	98,551	17,626	607,615	1,537,768	1,635,895

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

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

		Attributable to equity holders of the Bank								
	Notes	Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2012		800,000	13,563	413	98,551	17,626	607,615	1,537,768	98,127	1,635,895
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	347,720	347,720	8,146	355,866
Other comprehensive income										
Change in unrealized gain / (losses) on available for sale investments		-	-	-	-	145,177	-	145,177	-	145,177
Net gain on available for sale investment securities transferred to profit or loss		-	-	-	-	(756)	-	(756)	-	(756)
Non-controlling interest share on fair value change in subsidiaries		-	-	-	-	(230)	-	(230)	-	(230)
Income tax on other comprehensive income		-	-	-	-	(28,063)	-	(28,063)	-	(28,063)
Total other comprehensive income		-	-	-	-	116,128	-	116,128	-	116,128
Total comprehensive income for the year		-	-	-	-	116,128	347,720	463,848	8,146	471,994
Transactions with owners, recognized directly in equity										
Capital increase	24	300,000	-	-	-	-	(300,000)	-	-	-
Dividend distribution		-	-	-	-	-	(50,479)	(50,479)	-	(50,479)
Total contributions by and distributions to owners		300,000	-	-	-	-	(350,479)	(50,479)	-	(50,479)
Transfer to legal reserves		-	-	-	27,936	-	(27,936)	-	-	-
Other		-	-	(25)	(859)	-	(4,680)	(5,564)	(22,046)	(27,610)
Balance at 31 December 2012	24	1,100,000	13,563	388	125,628	133,754	572,240	1,945,573	84,227	2,029,800

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

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

	Notes	1 January – 31 December 2012	1 January – 31 December 2011
Cash flows from operating activities:			
Profit for the year		355,866	289,628
<i>Adjustments for:</i>			
Net interest income		(424,844)	(360,119)
Depreciation of property and equipment	13	2,491	2,478
Amortisation of intangible assets	15	362	390
Net impairment losses on loans and advances	9	(9,061)	(21,988)
Reserve for employee severance indemnity	22	3,017	606
Provision for unused vacations	22	110	(39)
Provision for bonus payments	22	6,248	5,720
Share of profit of equity-accounted investees		(20,271)	(20,924)
Income tax expense	21	75,226	70,880
Gain / (loss) on sale of property and equipment		(3,418)	(11,467)
Unrealized gains		56,029	57,226
Non-controlling interests	24	(8,146)	2,143
Operating profit before changes in operating assets / liabilities		33,609	14,534
Changes in operating assets and liabilities:			
Change in loans and leasing receivables		(1,011,855)	(1,840,908)
Change in other assets		92,809	(73,736)
Change in other creditors, taxes and liabilities		52,836	87,823
		(832,601)	(1,812,287)
Interest received		492,247	563,090
Interest paid		(191,485)	(175,115)
Income taxes paid		(78,649)	(50,461)
Indemnities paid	22	(1,402)	(654)
Bonus paid	22	(5,870)	-
Dividends received		6,014	4,487
Net cash used in operating activities		(611,746)	(1,470,940)
Cash flows from investing activities:			
Reserve requirements with the Central Bank		8,291	(55,879)
Change in trading securities		87,257	1,198
Change in available for sale investment securities		(307,081)	(216,132)
Change in held to maturity investment securities		95,787	182,973
Change in equity participations		746	2,848
Purchases of property and equipment and investment property		(13,613)	(6,171)
Sale of property and equipment		3,865	17,995
Purchase of intangible assets	15	(508)	(403)
Net cash used in investing activities		(125,256)	(73,571)
Cash flows from financing activities:			
Proceeds from funds borrowed		1,512,884	2,280,176
Repayment of funds borrowed		(791,033)	(727,821)
Dividends paid	32	(50,479)	(48,181)
Net cash provided from financing activities		671,372	1,504,174
Net decrease in cash and cash equivalents		(65,630)	(40,337)
Cash and cash equivalents at 1 January	5	534,689	564,646
Effect of exchange rate fluctuations on cash and cash equivalents held		(2,400)	10,380
Cash and cash equivalents at 31 December	5	466,659	534,689

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

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

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TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

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

1. REPORTING ENTITY

Türkiye Sınai Kalkınma Bankası AŞ (“TSKB” or the “Bank”) was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ (“SYB”), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (“BRSA”) decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 81 Fındıklı, Istanbul, Turkey.

The Bank and its subsidiaries are hereafter referred to as the “Group”.

Ever since its foundation in 1950, TSKB has played an active role in every stage of Turkey’s economic development. The Bank, through its support and extension of medium-term loans for more than 4,000 investment projects, has contributed significantly to the progress and development of the private sector. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group and T. Vakıflar Bankası T.A.O. with the percentages of 50.00% and 8.38%, respectively (31 December 2011: 50.00% and 8.38%, respectively).

The Bank has opened two branches in Izmir and Ankara in April 2006 to enhance marketing and valuation operations. TSKB Bahrain Branch, had been the only branch of TSKB in abroad, started its operations on 18 January 2005 after obtaining the off-shore banking license from Bahrain Central Bank (BMA) on 30 December 2004. In the Board of Directors meeting held on 25 January 2012; it was decided to close the Bahrain Branch of the Bank and in this context, General Management was authorized for the required operations. As at 27 December 2012, closing procedures of the Bahrain Branch have been completed.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2012 are available upon request from the Bank’s registered office and website.

Information about the consolidated subsidiaries and associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company’s objective is to perform capital market operations specified in the Company’s main contract in accordance with the Capital Markets Board (“CMB”) and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

1. REPORTING ENTITY (continued)

Information about the consolidated subsidiaries and associates (continued)

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company's shares are traded on the Istanbul Stock Exchange since April 2010.

TSKB Yatırım Ortaklığı AŞ

It was permitted that İş Yatırım Ortaklığı Anonim Şirketi take over TSKB Yatırım Ortaklığı A.Ş. within the Turkish Commercial Code 451 and 19 and 20th clauses of Corporate Tax Law numbered 5520 with the resolution of Competition Authority dated 29 March 2012 and nr. 12-14/417-BD and the resolution of Capital Markets Board dated 10 May 2012 and nr. 15/547. In the General Assemblies of companies dated 29 June 2012, merger was approved. Related resolutions and the merger agreement have been registered by Istanbul Trade Registry Office on 16 July 2012 and have been published in the Trade Registry Gazette numbered 8116, dated 20 July 2012. As of this date, TSKB Yatırım Ortaklığı was dissolved and transferred to İş Yatırım Ortaklığı A.Ş. together with all of its assets and liabilities. Income statement of TSKB Yatırım Ortaklığı A.Ş. until the merge with İş Yatırım Ortaklığı A.Ş., is consolidated by the Bank in the consolidated financial statements for the year ended 31 December 2012.

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The Company's headquarters is located at İş Kuleleri, Kule: 1 Kat: 6 34330 Levent-Istanbul/Turkey.

İş Factoring Finansman Hizmetleri AŞ

İş Factoring Finansman Hizmetleri AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993 and is conducting its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company's main operation is domestic and export factoring transactions. Its parent company is İş Finansal Kiralama AŞ with 78.23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 21.75%. The Company's headquarters is located at İş Kuleleri, Kule: 1 Kat: 10 34330 Levent-Istanbul/Turkey.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The company is continuing its operations at İş Kuleleri Kule 2, Kat: 2, Levent, Istanbul.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

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

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira (“TL”) in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

2.2. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value.

The methods used to measure fair values are discussed further in Note 3.8.

International Accounting Standard (“IAS”) 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilisation, decrease in the interest rates and the appreciation of TL against the US Dollars (“USD”), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2012

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

2. BASIS OF PREPARATION (Continued)

2.3 Functional and Presentation Currency

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

2.4 Use of Estimates and Judgments

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

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

Critical accounting judgments made in applying the Bank's accounting policies include:

Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note 3.8.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.

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2. BASIS OF PREPARATION (Continued)

2.4 Use of Estimates and Judgments (Continued)

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

Reserve for employee severance payments

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.23 are reviewed regularly.

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3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination.

The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group's holdings:

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	65.45

The consolidated financial statements of the companies below are accounted for under the equity method:

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
İş Finansal Kiralama AŞ	Leasing	28.59
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	16.67
İş Factoring Finansman Hizmetleri AŞ	Factoring	21.75

The following equity investments have been accounted at cost; they have not been consolidated or accounted under the equity method: their consolidation would not have a material effect on income for the year or on equity.

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
TSKB Gayrimenkul Danışmanlık AŞ	Real-Estate Appraiser	47.66
Terme Metal Sanayi ve Ticaret AŞ	Manufacturing	17.83
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	Warehousing	10.00
Sürdürülebilir Danışmanlık AŞ	Consultancy	96.00

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Business Combinations

Acquisitions from third parties are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investments in Associates (Equity-accounted Investees)

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As at the reporting date, the Group has investments in associates with a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Associates (Equity-accounted Investees) (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized directly in equity.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Foreign operations

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

As at 31 December 2012 and 31 December 2011, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2012 and 31 December 2011, exchange rates of US Dollar and Euro are as follows:

	2012		2011	
	Period End	Average	Period End	Average
1 US Dollar	1.7680	1.7856	1.8850	1.6707
1 Euro	2.3324	2.2956	2.4411	2.3239

3.3 Interest

Interest income and expense are recognized in the profit or loss using the effective interest method except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction cost and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss,
- coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Fees and Commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.5 Net Trading Income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

3.6 Dividends

Dividend income is recognized when the right to receive the income is established.

3.7 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Tax expense (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Tax exposures

In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax position and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.8 Financial assets and financial liabilities

Recognition and initial measurement

The Group initially recognizes loans and advances, funds borrowed, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

At inception, a financial asset is classified in one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; or
- at fair value through profit or loss and within the category as held for trading.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognized in profit or loss.

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Offsetting

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Amortised cost measurement

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

Fair value measurement

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

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

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and held to maturity investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held to maturity investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

In assessing collective impairment the Group uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

The Group writes off loans and advances when they are determined to be uncollectible (Note 9). Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Any subsequent reversal of impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

3.9 Cash and cash equivalents

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. These include investments and derivative contracts that are not designated as effective hedging instruments. These derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the statement of financial position at cost and subsequently are measured at their fair value.

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

3.11 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

Loans and advances classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method.

3.12 Investment Securities

Subsequent to initial recognition investment securities are accounted for depending on their classification as either held to maturity or available for sale.

Held to maturity financial assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Investment Securities (continued)

Available for sale financial assets

Available-for-sale investments are those non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would meet the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity. The Group did not reclassify any trading available for sale assets subsequent to their initial recognition.

3.13 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

3.14 Property and Equipment

Recognition and Measurement

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

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Property and Equipment (continued)

Recognition and Measurement (continued)

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

Subsequent costs

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

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

Buildings	50 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment and Software	5 years
Leasehold and Leasehold Improvements	lease term or 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.15 Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

3.16 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Goodwill (continued)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.17 Intangible Assets

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortisation and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated amortisation and accumulated impairment losses.

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

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.18 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Lease receivables are classified under loans in the accompanying statement of financial position.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Leases (continued)

The Group as Lessee

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 statement of financial position 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.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3.19 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Funds borrowed and subordinated liabilities

Funds borrowed and subordinated liabilities are the Group's main sources of debt funding and are initially recognized at fair value less transaction costs.

Subsequent to initial recognition, funds borrowed and subordinated liabilities are measured at their amortised cost using the effective interest method.

3.21 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.22 Provisions

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

3.23 Employee Benefits

Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

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The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Employee Benefits (Continued)

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution (SSI) within 3 years as at the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations should be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions, including the Ministry of Labor and Social Security. Such calculated obligation shall be settled in equal instalments in maximum 15 years.

Accordingly, the Group calculated its obligations on the Pension Funds transferable to the SSI in accordance with the Council of Ministers Decree for the purposes of determining the principles and procedures for such transfer.

Nonetheless, the related Article of the Banking Law was vetoed by the President and upon the President's litigation filed with the Constitutional Court this Article has been subsequently withdrawn by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as at the release of the related decision, the execution of this article was suspended as at the publication of the decision and the underlying reasoning of the decision for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, the articles of the new Social Security Law numbered 5754 related with the transfer of banks' pension fund participants to Social Security Institution within 3 years as at the enactment date were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28277 dated 8 March 2012. The principles and practices will be determined in the forthcoming Council of Ministers Decree.

Present value for the liabilities of the transferees as at the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Savings Deposit Insurance Fund, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9.80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

The Main Opposition Party has appealed to the Higher Court on 19 June 2008 for cancellation of some articles, including the first paragraph of 20th temporary article of the Law, and requested them to be ineffective until the case of revocatory action is finalized. As at the date of the publication of these consolidated financial statements, there is no decision announced by the Constitutional Court regarding the revocatory action.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Employee Benefits (Continued)

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as at 31 December 2012 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per the actuarial report dated February 2013, the liabilities, subject to the transfer to the Social Security Institution, are financed by the assets of the Pension Fund.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after in the context expressed above, would be financed by the assets of the Pension Fund and would not result in any extra burden on the Bank.

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 22) in the calculation of the reserve for employee severance indemnity.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.24 Earnings per Share

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.25 Fiduciary Assets

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.26 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group is currently organized into two operating divisions – “banking” and “stock brokerage and other”. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

3.27 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2009) (together IFRS 9)

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.27 New standards and interpretations not yet adopted (continued)

(i) IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2009) (together IFRS 9) (continued)

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change,

IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted.

(ii) Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (continued)

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

Based on our initial assessment, the Group is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

(iii) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Notes 3(a)(iii) and (iv)).

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests. The Group is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated structured entities in comparison with the existing disclosures.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.27 New standards and interpretations not yet adopted (continued)

(iv) IFRS 13 *Fair Value Measurement*

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies for determining fair values (see Note 5). Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(v) IAS 19 *Employee Benefits*

IAS 19 changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(vi) IAS 1 *Presentation of Financial Statements*

Amendments to IAS 1 – “Presentation of Items of Other Comprehensive Income” are effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not change the existing option to present profit or loss and other comprehensive income in two statements; and do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard.

3.28 Events after the reporting period

Events after the reporting period that provide additional information about the Group’s position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

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4. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Group's general management and appropriate sub-committees.

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Group places strong emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets.

The credit portfolio is monitored according to the overall composition and quality of the credit portfolio considering factors such as loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally. The Bank has also an internal credit risk rating system in managing the credit risk, which takes into account various financial and nonfinancial indicators for the evaluation of corporate and also guarantees.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in line with Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves". The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes sufficient collateral for the loans and other receivables extended. The collaterals obtained consist of personal suretyship, mortgage, cash blockage and client checks.

The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counterparties.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole.

If exposed to a significant degree of credit risk, the Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts.

The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications.

The Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern.

The international operations are made with many correspondent banks in various countries. The counterparty limits are set with operations made with the banks.

The Bank being an active participant in international banking market is not exposed to a significant degree of credit risk when evaluated with the financial operations of other financial institutions.

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The credit portfolio is also monitored according to various criteria including industry sector, geographical area and risk categories. Credit risk by types of borrowers is as follows:

	Loans and Advances to Customers		Marketable Securities		Loans and Advances to Banks and Others	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Loans according to <u>borrowers</u>						
Private Sector	6,303,594	5,887,901	265,047	204,794	210,047	190,522
Public Sector	-	-	2,478,516	2,207,832	-	-
Banks	469,913	374,220	115,518	94,413	440,274	534,591
Retail Customers	33,923	19,860	-	-	-	-
Share Certificates	-	-	44,126	43,126	-	-
Total	6,807,430	6,281,981	2,903,207	2,550,165	650,321	725,113

Loans according to <u>geographical</u>						
Domestic	6,782,352	6,260,562	2,794,743	2,357,999	616,406	681,932
European Union	333	265	24,826	87,969	2,839	6,207
OECD Countries (*)	-	-	-	-	126	1,652
Off-Shore Banking Regions	-	460	83,638	104,197	-	114
USA, Canada	-	-	-	-	30,950	35,208
Other Countries	24,745	20,694	-	-	-	-
Total	6,807,430	6,281,981	2,903,207	2,550,165	650,321	725,113

(*) OECD countries except EU countries, USA and Canada

The geographical concentration of assets, liabilities and other credit related commitments are as follows:

31 December 2012	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	10,669,553	98	3,792,610	35	6,992,983	100
Euro Zone	27,998	-	3,651,666	34	-	-
Offshore	83,638	1	155	-	-	-
USA, Canada	30,950	1	3,392,560	31	-	-
OECD Countries (*)	126	-	-	-	-	-
Other Countries	24,860	-	134	-	-	-
	10,837,125		10,837,125		6,992,983	

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2011	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	9,849,071	97	3,345,788	33	10,734,291	100
Euro Zone	94,443	1	3,724,864	37	-	-
Offshore	104,774	1	37,914	-	-	-
USA, Canada	43,691	1	3,005,803	30	-	-
OECD Countries (*)	1,652	-	-	-	-	-
Other Countries	20,738	-	-	-	-	-
	10,114,369		10,114,369		10,734,291	

(*) OECD countries except EU countries, USA and Canada

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

	31 December 2012	31 December 2011
<u>Gross maximum exposure</u>		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	572,741	546,335
Interbank money market placements	-	102,437
Funds lent under repurchase agreements	199	6,928
Trading assets	17,926	104,972
Derivative financial assets held for trading	23,243	45,353
Loans and advances to customers	6,807,430	6,281,981
Held to maturity investment securities	-	126,955
Available for sale investment securities	2,885,281	2,318,238
Total	10,306,820	9,533,199

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets as at 31 December 2012 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	440,075	-	-	-	440,075
Loans and advances to customers	6,815,830	23,277	(11,495)	(20,182)	6,807,430
Corporate lending	5,166,246	13,956	(9,339)	(15,287)	5,155,576
Small business lending	1,615,661	7,885	(720)	(4,791)	1,618,035
Other	33,923	1,436	(1,436)	(104)	33,819
Total	7,255,905	23,277	(11,495)	(20,182)	7,247,505

Credit quality per class of financial assets as at 31 December 2011 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	425,226	-	-	-	425,226
Loans and advances to customers	6,293,844	28,875	(12,215)	(28,523)	6,281,981
Corporate lending	5,398,789	14,192	(9,393)	(24,419)	5,379,169
Small business lending	875,334	13,235	(1,374)	(4,104)	883,091
Other	19,721	1,448	(1,448)	-	19,721
Total	6,719,070	28,875	(12,215)	(28,523)	6,707,207

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	31 December 2012	31 December 2011
Loans and advances to customers		
Corporate lending	23,390	58,880
Small business lending	4,205	3,318
Total	27,595	62,198

Credit risk is evaluated according to the Bank's internal rating. Non-financial service customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial service customers, which are rated by external rating firms, are matched to the Bank's internal ratings. The loans rated according to the possibility of being in default are classified from the highest grade (top grade) to the lowest (below average) as below; at the bottom of the table there are credits in default (impaired) according to rating model.

	31 December 2012	31 December 2011
<u>Basic Loan Quality Categories</u>		
Top Grade	410,632	362,285
High Grade	2,877,120	2,475,919
Average Grade	3,254,586	3,867,001
Below Average Grade	1,438,279	796,548
Impaired	22,292	27,698
Total	8,002,909	7,529,451

Category "top" shows that the debtor has a very strong financial structure, "high" shows that the debtor has a strong financial structure, "average" shows the debtor's financial structure is good enough while "below average" category shows that debtor's financial structure is under risk in the short and medium term.

As at the reporting date, the total of the Group's cash and non-cash loans and financial lease receivables (gross amount including the non-performing loans, excluding the specific and portfolio provisions) is TL 8,051,664; and TL 48,745 of these customers have not been rated (31 December 2011: TL 7,591,698; TL 62,247).

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

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 Parent Bank. For the purposes of monitoring and assessing the liquidity position of the Parent Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year was as follows:

	31 December 2012 %	31 December 2011 %
Average during the period	165.47	168.10

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2012 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	250	250
Balances with central bank	-	-	-	27,798	27,798
Reserve deposits at central bank	73,678	30,940	-	-	104,618
Loans and advances to banks	399,079	-	-	40,996	440,075
Funds lent under repurchase agreements	199	-	-	-	199
Trading assets	2,977	2,583	8,929	3,437	17,926
Derivative assets	5,791	2,140	15,312	-	23,243
Loans and advances to customers	448,017	1,205,395	5,123,235	30,783	6,807,430
Available for sale investment securities	219,778	317,591	2,306,366	41,546	2,885,281
Total	1,149,519	1,558,649	7,453,842	144,810	10,306,820
LIABILITIES					
Obligations under repurchase agreements	1,234,402	777	-	-	1,235,179
Derivative liabilities	1,510	1,983	17,504	-	20,997
Funds borrowed and subordinated loan	372,934	543,754	6,202,042	-	7,118,730
Payables to stock exchange money market	267,449	-	-	-	267,449
Current account of loan customers	9,745	-	-	-	9,745
Taxes and dues payable	3,517	-	-	-	3,517
Corporate tax liability	29,690	-	-	-	29,690
Employee benefits	6,248	-	-	8,986	15,234
Other liabilities	-	6	-	106,588	106,594
Total	1,925,495	546,520	6,219,546	115,574	8,807,135

The maturity analysis for certain asset and liability items is estimated.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2011 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	347	347
Balances with central bank	-	-	-	7,853	7,853
Reserve deposits at central bank	79,920	-	32,989	-	112,909
Loans and advances to banks	372,772	-	-	52,454	425,226
Interbank money market placements	102,437	-	-	-	102,437
Funds lent under repurchase agreements	6,928	-	-	-	6,928
Trading assets	217	26,290	62,178	16,287	104,972
Derivative assets	16,762	13,081	15,510	-	45,353
Loans and advances to customers	442,241	893,590	4,931,282	14,868	6,281,981
Available for sale investment securities	73,101	219,187	1,998,063	27,887	2,318,238
Held to maturity investment securities	126,955	-	-	-	126,955
Other assets	1,668	-	-	125,902	127,570
Total	1,223,001	1,152,148	7,040,022	245,598	9,660,769
LIABILITIES					
Obligations under repurchase agreements	946,696	1,058	-	-	947,754
Derivative liabilities	23,850	12,480	12,413	-	48,743
Funds borrowed and subordinated loan	499,805	555,781	5,824,949	-	6,880,535
Payables to stock exchange money market	420,609	-	-	-	420,609
Current account of loan customers	7,894	-	-	-	7,894
Taxes and dues payable	4,085	-	-	-	4,085
Corporate tax liability	13,583	-	-	-	13,583
Employee benefits	5,720	-	-	5,859	11,579
Other liabilities	37,416	-	-	105,525	142,941
Total	1,959,658	569,319	5,837,362	111,384	8,477,723

The maturity analysis for certain asset and liability items is estimated.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

As at 31 December 2012	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<u>Liabilities</u>							
Payables to stock exchange money market	267,859	-	-	-	-	(410)	267,449
Funds borrowed and subordinated loan	278,625	121,181	747,445	2,798,639	3,841,923	(669,083)	7,118,730
Obligations under repurchase agreements	1,233,396	2,168	779	-	-	(1,164)	1,235,179
Total	1,779,880	123,349	748,224	2,798,639	3,841,923	(670,657)	8,621,358

As at 31 December 2011	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<u>Liabilities</u>							
Payables to stock exchange money market	420,609	-	-	-	-	-	420,609
Funds borrowed and subordinated loan	283,801	131,635	620,640	2,731,497	3,585,072	(472,110)	6,880,535
Obligations under repurchase agreements	942,945	7,192	1,060	-	-	(3,443)	947,754
Total	1,647,355	138,827	621,700	2,731,497	3,585,072	(475,553)	8,248,898

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

As at 31 December 2012	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	671,556	52,367	27,067	1,010,853	587,097	3,366	2,352,306
Forward contracts	144,684	57,219	273,614	-	-	-	475,517
Options	61,286	27,678	30,726	31,199	-	-	150,889
Total	877,526	137,264	331,407	1,042,052	587,097	3,366	2,978,712

As at 31 December 2011	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	730,420	123,785	96,597	867,689	484,799	(38,871)	2,264,419
Forward contracts	345,062	244,870	534,851	110,064	-	-	1,234,847
Options	407,930	620,790	389,130	49,904	-	-	1,467,754
Others	1,939	-	-	-	-	-	1,939
Total	1,485,351	989,445	1,020,578	1,027,657	484,799	(38,871)	4,968,959

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of financial assets and liabilities and other financial contracts will have an adverse financial impact. The primary risks within the Group's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Group's statement of financial position is denominated in currencies other than the Turkish Lira (principally the US Dollar and Euro-zone currencies).

The Group's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Group's treasury and financial assets trading divisions.

The Group benefits from VAR methods, stress testing and scenario analysis for measuring market risk. VAR calculations are made by choosing the 90, 95, and 99% confidence intervals, 1 day/10 days holding periods.

Interest Rate Risk

The Group is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2012:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	250	250
Balance with the Central Bank	-	-	-	27,798	27,798
Reserve deposits at central bank	-	-	-	104,618	104,618
Loans and advances to banks	399,079	-	-	40,996	440,075
Funds lent under repurchase agreements	199	-	-	-	199
Trading assets	11,331	3,158	-	3,437	17,926
Derivative assets	5,954	5,864	11,425	-	23,243
Loans and advances to customers	3,566,040	2,813,309	397,298	30,783	6,807,430
Available for sale investment securities	1,706,598	483,844	653,293	41,546	2,885,281
Total	5,689,201	3,306,175	1,062,016	249,428	10,306,820
LIABILITIES					
Obligations under repurchase agreements	1,234,402	777	-	-	1,235,179
Derivative liabilities	1,510	1,983	17,504	-	20,997
Funds borrowed and subordinated loan	5,227,816	1,564,704	326,210	-	7,118,730
Payables to stock exchange money market	267,449	-	-	-	267,449
Current account of loan customers	9,745	-	-	-	9,745
Taxes and dues payable	3,517	-	-	-	3,517
Corporate tax liability	29,690	-	-	-	29,690
Employee benefits	6,248	-	-	8,986	15,234
Other liabilities	-	6	-	106,588	106,594
Total	6,780,377	1,567,470	343,714	115,574	8,807,135

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2011:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	347	347
Balances with central bank	-	-	-	7,853	7,853
Reserve deposits at central bank	79,920	-	32,989	-	112,909
Loans and advances to banks	372,772	-	-	52,454	425,226
Interbank money market placements	102,437	-	-	-	102,437
Funds lent under repurchase agreements	6,928	-	-	-	6,928
Trading assets	217	26,290	62,178	16,287	104,972
Derivative assets	16,762	13,081	15,510	-	45,353
Loans and advances to customers	442,241	893,590	4,931,282	14,868	6,281,981
Available for sale investment securities	73,101	219,187	1,998,063	27,887	2,318,238
Held to maturity investment securities	126,955	-	-	-	126,955
Other assets	1,668	-	-	125,902	127,570
Total	1,223,001	1,152,148	7,040,022	245,598	9,660,769
LIABILITIES					
Obligations under repurchase agreements	946,696	1,058	-	-	947,754
Derivative liabilities	23,850	12,480	12,413	-	48,743
Funds borrowed and subordinated loan	499,805	555,781	5,824,949	-	6,880,535
Payables to stock exchange money market	420,609	-	-	-	420,609
Current account of loan customers	7,894	-	-	-	7,894
Taxes and dues payable	4,085	-	-	-	4,085
Corporate tax liability	13,583	-	-	-	13,583
Employee benefits	5,720	-	-	5,859	11,579
Other liabilities	37,416	-	-	105,525	142,941
Total	1,959,658	569,319	5,837,362	111,384	8,477,723

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Sensitivity (continued)

As at 31 December 2012, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with central bank & banks	7.75	3.52	-	-
Interbank money market placements	-	-	-	-
Funds lent under repurchase agreements	4.75	-	-	-
Trading assets	8.79	-	7.00	-
Loans and advances to customers	10.32	3.75	4.25	-
Lease receivables	-	3.73	3.72	-
Available for sale investment securities	9.04	5.36	6.49	-
<u>Liabilities</u>				
Obligations under repurchase agreements	5.51	0.76	1.02	-
Funds borrowed and subordinated loan	6.62	1.18	1.19	-
Payables to stock exchange money market	6.16	-	1.00	-
Current account of loan customers	6.50	1.00	1.00	-

As at 31 December 2011, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %	JPY %
<u>Assets</u>				
Balances with central bank & banks	11.55	-	5.38	-
Interbank money market placements	11.35	-	-	-
Funds lent under repurchase agreements	9.89	-	-	-
Trading assets	8.81	-	-	-
Loans and advances to customers	13.07	4.88	4.05	4.96
Lease receivables	-	4.44	2.98	-
Available for sale investment securities	9.09	6.03	5.79	-
Held to maturity investment securities	35.10	-	-	-
<u>Liabilities</u>				
Obligations under repurchase agreements	6.08	1.02	1.78	-
Funds borrowed and subordinated loan	10.30	2.11	0.88	-
Payables to stock exchange money market	11.49	-	-	-
Current account of loan customers	6.50	1.00	1.00	-

The Group's interest rate sensitivity is calculated according to the market risk related to assets and liabilities. In this context, at the reporting date, if interest rates had been 1 bp higher for TL and foreign currency and all other variables were held constant, the net increase on the profit and shareholders' equity would have been TL 1,447 and if interest rates had been 1 bp lower for TL and foreign currencies, the net decrease on the profit and shareholders' equity would have been TL (549).

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Other Price Risks

Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to stock price risks at the reporting date.

The Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.

As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.

According to the analysis results under these assumptions; profit/loss will increase/decrease by TL 3,354 (31 December 2011: TL 955), marketable securities classified as financial assets held for trading would decrease/increase by TL 516 (31 December 2011: TL 2,307 marketable securities value increase fund increase/decrease).

Unless the equity share investments classified as assets available for sale are disposed of or impaired, the net profit/loss will not be affected.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2012:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	2,520	62	-	2,582
Reserve deposits at Central Bank	40,631	63,988	-	104,619
Loans and advances to banks	27,984	34,350	480	62,814
Trading investment securities	-	-	-	-
Derivative financial instruments	5,815	10,664	-	16,479
Loans and advances to customers	2,917,237	3,664,245	-	6,581,482
Available for sale investment securities	33,697	440,952	-	474,649
Other assets	19	12,695	3	12,717
Total Assets	3,027,903	4,226,956	483	7,255,342
Liabilities				
Obligations under repurchase agreements	21,668	215,634	8	237,310
Derivative financial liabilities held for trading	7,418	10,495	-	17,913
Funds borrowed and subordinated loan	3,326,483	3,649,428	-	6,975,911
Current account of loan customers	573	7,262	-	7,835
Other liabilities	1,441	34,132	25	35,598
Total Liabilities	3,357,583	3,916,951	33	7,274,567
Net Statement of Financial Position	(329,680)	310,005	450	(19,225)
Off Balance Sheet Position				
Derivatives to sell	416,985	130,153	893	548,031
Derivatives to buy	(174,866)	(392,020)	-	(566,886)
	242,119	(261,867)	893	(18,855)
Net Position	(87,561)	48,138	1,343	(38,080)

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2011:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	2,647	88	8	2,743
Reserve deposits at Central Bank	79,920	32,989	-	112,909
Loans and advances to banks	6,528	397,328	2,325	406,181
Trading investment securities	-	716	-	716
Derivative financial instruments	15,457	10,664	-	26,121
Loans and advances to customers	2,765,463	3,397,377	215	6,163,055
Available for sale investment securities	38,501	532,542	-	571,043
Property and equipment	-	-	2	2
Other assets	3,507	38,131	3	41,641
Total Assets	2,912,023	4,409,835	2,553	7,324,411
Liabilities				
Obligations under repurchase agreements	41,637	136,028	297	177,962
Derivative financial liabilities held for trading	15,970	12,822	-	28,792
Funds borrowed and subordinated loan	3,163,717	3,693,055	-	6,856,772
Current account of loan customers	156	5,839	340	6,335
Other liabilities	4,800	15,311	369	20,480
Total Liabilities	3,226,280	3,863,055	1,006	7,090,341
Net Statement of Financial Position	(314,257)	546,780	1,547	234,070
Off Balance Sheet Position				
Derivatives to sell	747,673	327,183	2,954	1,077,810
Derivatives to buy	(522,082)	(886,485)	(3,275)	(1,411,842)
	225,591	(559,302)	(321)	(334,032)
Net Position	(88,666)	(12,522)	1,226	(99,962)

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency sensitivity

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Group's top management.

Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

The Group is mostly exposed to Euro and US Dollar currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	% Increase	Effect on profit or loss(*)		Effect on equity(**)	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
US Dollar	10%	1,022	(3,250)	3,792	1,998
Euro	10%	(8,857)	(8,869)	101	3
Other	10%	134	123	-	-

	% Decrease	Effect on profit or loss(*)		Effect on equity(**)	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
US Dollar	10%	(1,022)	3,250	(3,792)	(1,998)
Euro	10%	8,857	8,869	(101)	(3)
Other	10%	(134)	(123)	-	-

(*) Values expressed are before the tax effect.

(**) Effect on equity does not include effect on profit/loss.

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

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4. FINANCIAL RISK MANAGEMENT (continued)

Capital management – regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2012 and 2011 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis at 31 December 2012 and 2011 was as follows:

	2012 (**)	2011 (*)
Tier 1 capital	1,782,340	1,537,565
Tier 2 capital	190,483	141,613
Deductions from capital	(210,420)	(190,867)
Total regulatory capital	1,762,403	1,488,311
Risk-weighted assets	8,178,638	6,956,797
Value at market risk	188,763	642,238
Operational risk	702,413	590,624
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	19.43%	18.17%
Total Tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	19.65%	18.77%

(*) Related figures as at 31 December 2011 are calculated before the calculation base has changed to Basel II starting from 1 July 2012.

(**) Related figures as at 31 December 2012 are calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II.

As at 31 December 2012, the Bank's capital adequacy ratio on an unconsolidated basis is 20.35% (31 December 2011: 19.08%). The Group's consolidated capital adequacy ratio as at 31 December 2012 is 19.43% (31 December 2011: 18.17%).

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4. FINANCIAL RISK MANAGEMENT (continued)

Operational risk

Operational risk amount of the Group is measured with Basic Indicator Method referring to “Regulation on Measurement and Assessment of Capital Adequacy of Banks” According to this method; the calculation is performed parallel to the practice within the country, by multiplying 15% of the Group’s last three years’ average gross revenue with 12.5. The amount, calculated as TL 702,413 as at 31 December 2012 (31 December 2011: TL 590,624) represents the operational risk.

Yearly gross income, as presented on the income statement; is calculated with net interest income plus net fee and commission, dividend income except from subsidiaries and associates, trading profit/loss and other operational income minus profit/loss gain on sale of assets other than of trading accounts, extraordinary income, operational expense for support service from a bank and recoveries from insurance.

5. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash on hand – Turkish Lira (“TL”)	137	190
Cash on hand – Foreign currencies (“FC”)	113	157
Total cash and cash equivalents	250	347

There is no blockage on the use of cash and cash equivalents as of 31 December 2012 (31 December 2011: TL 7,145).

	31 December 2012	31 December 2011
Cash and cash equivalents	250	347
Loans and advances to banks (with original maturity of less than 3 months)	438,412	417,127
Unrestricted balances with the central bank	27,798	7,853
Funds lent under repurchase agreements	199	6,925
Interbank money market placements	-	102,437
Cash and cash equivalents in the statement of cash flows	466,659	534,689

6. BALANCES WITH CENTRAL BANK

a) Unrestricted balances with central bank

	31 December 2012	31 December 2011
Demand deposits – TL	25,328	5,267
Demand deposits – FC	2,470	2,586
Total	27,798	7,853

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6. BALANCES WITH CENTRAL BANK (continued)

b) Reserve Deposits at central bank

	31 December 2012	31 December 2011
Foreign currency reserves	104,618	112,909
Total	104,618	112,909

As per the Communiqué numbered 2005/1 “Reserve Deposits” of the CBT, banks keep reserve deposits at the CBT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-day periods. In accordance with the related communiqué, no interest is paid for reserve requirements.

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of Central Bank of Turkey, nr. 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2012 are presented in table below:

	Foreign Currency Liabilities Required Reserve Rates (%)	Turkish Lira Liabilities Required Reserve Rates (%)
Other liabilities up to 1 year maturity (including 1 year)	11	11
Other liabilities up to 1 year maturity (including 1 year)	9	8
Other liabilities longer than 3 years maturity	6	5

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7. LOANS AND ADVANCES TO BANKS

	31 December 2012	31 December 2011
<u>Domestic Banks</u>		
Demand deposits – TL	2,967	5,060
Time deposits – TL	374,294	13,985
Demand deposits – FC	4,146	4,216
Time deposits – FC	24,753	358,784
	406,160	382,045
<u>Foreign Banks</u>		
Demand deposits – FC	33,915	43,181
	33,915	43,181
Total	440,075	425,226

The time deposits above mature within 1 - 80 days and earn interest at rates ranging 8.00-8.65% for TL balances, 3.10-3.90 % for foreign currency balances as at the reporting date (31 December 2011: Maturity: 1 - 90 days; interest rate 11.43-12.00% for TL balances and 0.21-6.00% for foreign currency).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2012	31 December 2011
<u>Trading assets</u>		
Government bonds and treasury bills in TL	7,753	83,623
Debt securities issued by corporations	6,004	4,349
Equity shares	2,581	15,239
Mutual funds	855	1,045
Eurobonds	733	-
Government bonds and treasury bills in FC	-	716
Total	17,926	104,972

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 199 and also securities given as collateral or blocked amounting to TL 7,973 as at the reporting date (31 December 2011: TL 273 and TL 6,905 respectively).

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9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2012	31 December 2011
Short-term and current portion of long term loans	1,686,517	1,353,503
Long-term loans	5,130,298	4,941,518
Total performing loans	6,816,815	6,295,021
Non-performing loans	22,292	27,698
Total loans	6,839,107	6,322,719
Less: Specific reserve for impairment losses on loans	(11,495)	(12,215)
Less: Portfolio reserve for impairment losses on loans	(20,182)	(28,523)
Total loans	6,807,430	6,281,981

Movements in the reserve for impairment losses on loans for the year ended 2012 and 2011 are as follows:

	1 January – 31 December 2012	1 January – 31 December 2011
Specific reserve for cash loans:		
As at 1 January	12,215	9,837
Charge for the year	6,733	2,788
Reserve released and write offs	(7,453)	(410)
As at 31 December	11,495	12,215
Portfolio reserve for cash loans:		
As at 1 January	28,523	52,889
Charge for the year	-	3,943
Reserve released and write offs	(8,341)	(28,309)
As at 31 December	20,182	28,523
Total reserve for impairment losses on loans	31,677	40,738

Loans can be further analysed by customer groups as follows:

	31 December 2012	31 December 2011
Sector		
Corporate customers	5,180,202	5,412,980
Small business	1,623,546	888,570
Other	35,359	21,169
	6,839,107	6,322,719

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

	31 December 2012	31 December 2011
<u>Currency</u>		
Euro	2,016,258	1,729,499
US Dollar	3,115,863	2,786,943
Foreign currency indexed TL loans	1,454,813	1,661,107
Turkish Lira	252,173	144,955
Other currencies	-	215
Total	6,839,107	6,322,719

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid at the Turkish Lira equivalent of the currency to which they are indexed.

Performing loans, receivables and non-performing loans can be analysed by sector as follows:

<u>Sector</u>	31 December 2012		31 December 2011	
	Loans	Non-performing	Loans	Non-performing
Energy	2,570,751	-	2,514,708	-
Finance	1,121,775	190	979,002	5,532
Tourism	209,010	-	223,636	5,312
Construction	254,130	514	257,552	513
Metal	294,612	605	280,164	605
Cement	167,730	-	154,522	-
Pulp and Paper	110,960	407	111,136	689
Chemical	208,334	-	142,509	-
Food and Beverages	128,689	7,676	93,146	1,159
Plastics	105,251	-	84,839	-
Textile	95,729	1,974	97,773	2,186
Motor Vehicles	117,433	-	149,514	-
Ceramics	99,250	-	131,215	-
Health Services	33,706	5,317	42,774	5,979
Lumber and Wood	11,304	-	20,934	-
Education	12,418	-	31,318	-
Machinery Production	5,476	279	3,421	278
Farming	12,024	3,423	19,068	3,419
Shipyard	51,531	-	22,039	-
Other	1,206,702	1,907	935,751	2,026
Total	6,816,815	22,292	6,295,021	27,698

Interest rates charged for short-term loans are 6.60-12.00% for Turkish Lira loans, 1.04-5.15% for Euro loans and 2.50-8.75% for US Dollar loans per annum during the year (31 December 2011: 11.50-15.50% for Turkish Lira loans, 2.19-6.50% for Euro loans and 2.50-6.06% for US Dollar loans).

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

The Bank mainly extends long-term loans to customers. Interest rates ranges for long term loans are as follows:

	31 December 2012	31 December 2011
Euro	2.07-7.57%	2.43-6.70%
US Dollar	2.05-9.93%	1.91-9.31%
TL	9.02-18.50%	9.50-18.50%
JPY	-	4.96%

TL 235,062 of the cash loans are extended to related parties. Related parties have TL 117,825 non-cash loan risk as at the reporting date (31 December 2011: TL 184,614 and TL 117,903; respectively).

The collaterals for the loans extended to the related parties are TL 21,948 as at the reporting date (31 December 2011: TL 27,300).

Loans include finance lease receivables. Components of the lease contracts are as follows:

	31 December 2012	31 December 2011
Lease payments receivable	9,758	29,577
(Less): Unearned income	(326)	(1,177)
Finance lease receivables	9,432	28,400
Current maturity – net	5,829	711
Long - term portion – net	3,603	27,689
Finance lease receivables	9,432	28,400

For the year ended 31 December 2012, currency components of finance lease receivables are as follows (amounts in thousands and original currencies):

	TL	Euro	JPY	US Dollar
2013	-	733	-	194
2014	-	3,164	-	-
	-	3,897	-	194

For the year ended 31 December 2011, currency components of finance lease receivables are as follows (amounts in thousands and original currencies):

	TL	Euro	JPY	US Dollar
2012	-	3,396	-	2,185
2013	-	1,444	-	510
2014	-	4,713	-	-
	-	9,553	-	2,695

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

Set out below is an analysis of loans as at 31 December 2012 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	5,166,246	1,615,661	33,923	-	6,815,830
Past due not impaired	-	985	-	-	985
Individually impaired	13,956	6,900	1,436	-	22,292
Total gross	5,180,202	1,623,546	35,359	-	6,839,107
Less: reserve for individually impaired loans	(9,339)	(720)	(1,436)	-	(11,495)
Less: reserve for collectively impaired loans	-	-	-	(20,182)	(20,182)
Total reserve for impairment	(9,339)	(720)	(1,436)	(20,182)	(31,677)
	5,170,863	1,622,826	33,923	(20,182)	6,807,430

Set out below is an analysis of loans as at 31 December 2011 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	5,398,788	875,335	19,721	-	6,293,844
Past due not impaired	1,177	-	-	-	1,177
Individually impaired	13,015	13,235	1,448	-	27,698
Total gross	5,412,980	888,570	21,169	-	6,322,719
Less: reserve for individually impaired loans	(9,393)	(1,374)	(1,448)	-	(12,215)
Less: reserve for collectively impaired loans	-	-	-	(28,523)	(28,523)
Total reserve for impairment	(9,393)	(1,374)	(1,448)	(28,523)	(40,738)
Total net	5,403,587	887,196	19,721	(28,523)	6,281,981

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9. LOANS AND ADVANCES TO CUSTOMERS (continued)

A reconciliation of the specific reserve for impairment losses by customer groups is as follows:

	Corporate	Small Business	Other	Total
At 1 January 2012	9,393	1,374	1448	12,215
Charge for the year	6,730	3	-	6,733
Recoveries, releases and write offs	(6,784)	(657)	(12)	(7,453)
At 31 December 2012	9,339	720	1,436	11,495

	Corporate	Small Business	Other	Total
At 1 January 2011	7,714	1,147	976	9,837
Charge for the year	1,791	350	647	2,788
Recoveries, releases and write offs	(112)	(123)	(175)	(410)
At 31 December 2011	9,393	1,374	1,448	12,215

Of the total aggregate amount of non-performing loans and advances to customers, the fair value of collaterals that the Bank held as at 31 December 2012 is TL 18,825 (31 December 2011: TL 20,748).

As at 31 December 2012, the aging analysis of past due but not impaired loans per customer groups is as follows:

	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	-	-	-	-	-
Small business lending	985	-	-	-	985
Total	985	-	-	-	985

As at 31 December 2011, the aging analysis of past due but not impaired loans per customer groups is as follows:

	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	1,177	-	-	-	1,177
Small business lending	-	-	-	-	-
Total	1,177	-	-	-	1,177

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that the Bank held as at 31 December 2012 is TL 985 (31 December 2011: TL 1,163).

Loans and advances to customers amounting to TL 6,185,898 have floating interest rates (31 December 2011: TL 5,630,591) and the remaining TL 630,917 have fixed interest rates (31 December 2011: TL 664,430).

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10. INVESTMENT SECURITIES

Available for sale investment securities

	31 December 2012	31 December 2011
Government bonds and treasury bills in TL	2,127,232	1,617,661
Government bonds and treasury bills in FC	-	57,148
Eurobonds	342,798	321,729
Equity shares	41,545	27,887
Debt securities issued by corporations	373,706	293,813
Total	2,885,281	2,318,238

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 1,314,982 as at the reporting date (31 December 2011: TL 843,094).

Held to maturity investment securities

	31 December 2012	31 December 2011
Government bonds and treasury bills in TL	-	126,955
Total	-	126,955

As of the reporting date, the Group has no investment securities held-to-maturity. As of the reporting date, the Group has no investment securities held-to-maturity subject to repurchase transactions (31 December 2011: TL 124,046).

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10. INVESTMENT SECURITIES (continued)

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and Takasbank ISE Settlement and Custody Bank Inc. (Clearing House) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2012 and 31 December 2011 are as follows:

	2012 Nominal Value	2012 Carrying Value	2011 Nominal Value	2011 Carrying Value
<u>Government Bonds and Treasury Bills:</u>				
Central Bank- Interbank Market Guarantee	13,982	20,582	38,982	45,906
Central Bank- Open Market Operations	256,886	288,634	269,858	276,853
Central Bank – Foreign Currency Operations				
Guarantee	95,680	112,253	79,054	79,659
Clearing House – Blocked Securities	39,810	41,893	39,889	42,013
Other (International Bank) Foreign Currency	-	-	70,876	79,530
	406,358	463,362	498,659	523,961

The Group's equity shares in available for sale investment securities are as follows:

	Ownership %	31 December 2012	31 December 2011
<u>Investee</u>			
İş Yatırım Ortaklığı AŞ	6.95	15,479	-
İMKB Takas ve Saklama AŞ	6.80	13,849	13,849
İş Portföy Yönetimi AŞ	9.90	4,217	3,467
European Investment Fund	0.17	2,957	2,957
Aksa Enerji Üretim AŞ	<1.00	1,292	4,211
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ (*)	10.00	1,235	800
Cam Elyaf Sanayi AŞ	0.71	618	618
TSKB Gayrimenkul Değerleme AŞ (*)	99.99	379	379
TSKB Gayrimenkul Danışmanlık AŞ (*)	47.66	323	4
Terme Metal San. Ve Tic. AŞ (*)	17.83	291	291
Sürdürülebilir Danışmanlık AŞ (*)	96.00	230	230
Vadeli İşlem ve Opsiyon Borsası AŞ	1.00	108	108
TSKB Gayrimenkul Aracılık Hizmetleri AŞ (**)	96.00	-	232
Others	<1.00	567	741
Total equity shares in available for sale investments		41,545	27,887

(*) The investments in TSKB Gayrimenkul Değerleme AŞ, TSKB Gayrimenkul Danışmanlık AŞ, Terme Metal San. ve Tic. AŞ, Sürdürülebilir Danışmanlık AŞ and Ege Tarım Ürünleri Lisanslı Depoculuk AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

(**) In the Board of Directors meeting of TSKB Gayrimenkul Danışmanlık A.Ş., one of the subsidiary of the Bank, held on 14 September 2012, it was decided to merge with TSKB Danışmanlık Hizmetleri A.Ş., (named TSKB Gayrimenkul Aracılık Hizmetleri AŞ before 10 September 2012) also one of the subsidiary of the Bank, by using the financial statements dated 31 August 2012.

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11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

As at 31 December 2012 and 2011, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2012
<u>Investee</u>			
İş Finansal Kiralama AŞ	28.59	111,220	149,442
İş Factoring Finansman Hizm. AŞ	21.75	3,480	26,348
İş Girişim Serm. Yat. Ort. AŞ	16.67	9,660	34,257
		124,360	210,047

	Ownership (%)	Nominal	31 December 2011
<u>Investee</u>			
İş Finansal Kiralama AŞ	28.59	96,924	138,305
İş Factoring Finansman Hizm. AŞ	21.75	3,480	23,420
İş Girişim Serm. Yat. Ort. AŞ	16.67	8,400	28,797
		108,804	190,522

The Group's share of profit in its equity-accounted investees for the year 31 December 2012 was TL 20,271 (31 December 2011: TL 20,924). In 2012 the Group has received dividends of TL 15,540 from its investments in equity-accounted investees (31 December 2011: TL 13,837).

The Group's equity-accounted investees are listed on Istanbul Stock Exchange, except for İş Factoring Finansman Hizm. AŞ. Based on their closing prices of TL 1.02 of İş Finansal Kiralama AŞ and TL 2.56 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 138,050 (31 December 2011: TL 1.14 of İş Finansal Kiralama AŞ and TL 1.96 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 126,837).

Summary financial information for equity-accounted investees is as follows:

31 December 2012	Total assets	Equity	Current Period Profit	Fair value
İş Finansal Kiralama AŞ	2,820,322	565,798	40,805	113,320
İş Factoring Finansman Hizm. AŞ	1,041,260	59,723	4,574	-
İş Girişim Serm. Yat. Ort. AŞ	232,587	204,415	34,245	24,730
	4,094,169	829,936	79,624	138,050

31 December 2011	Total assets	Equity	Current Period Profit	Fair value
İş Finansal Kiralama AŞ	1,826,246	483,650	46,030	110,373
İş Factoring Finansman Hizm. AŞ	332,314	52,973	8,236	-
İş Girişim Serm. Yat. Ort. AŞ	176,411	172,441	37,995	16,464
	2,334,971	709,064	92,261	126,837

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12. GOODWILL

Cost

At 1 January 2011	383
At 31 December 2012	383

Impairment

At 1 January 2011	-
At 31 December 2012	-

Carrying Amount

At 31 December 2011	383
At 31 December 2012	383

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the investees are determined from cash flows projections. The Bank's management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts.

As at 31 December 2012, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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13. PROPERTY AND EQUIPMENT

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	Total
<u>Acquisition Cost</u>							
Balance at 1 January 2012	1,696	4,562	42,389	8,196	1,293	9,232	67,368
Additions	-	561	746	586	135	455	2,483
Disposals	(361)	-	(41)	(268)	(111)	(44)	(825)
Adjustments	-	-	(1,247)	-	-	-	(1,247)
Balance at 31 December 2012	1,335	5,123	41,847	8,514	1,317	9,643	67,779
<u>Accumulated Depreciation</u>							
Balance at 1 January 2012	(462)	(4,290)	(23,273)	(5,905)	(773)	(7,927)	(42,630)
Charge for the year	-	(158)	(850)	(797)	(221)	(465)	(2,491)
Impairment during the year	(13)	-	-	-	-	-	(13)
Disposals	-	-	-	248	87	43	378
Adjustments	-	-	938	-	-	-	938
Balance at 31 December 2012	(475)	(4,448)	(23,185)	(6,454)	(907)	(8,349)	(43,818)
Net Book Value at 31 December 2012	860	675	18,662	2,060	410	1,294	23,961

At 31 December 2012, the net carrying amount of leased property and equipment is TL 205.

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13. PROPERTY AND EQUIPMENT (continued)

	Land	Leasehold Improvements	Buildings	Equipment	Vehicles	Fixture	Total
<u>Acquisition Cost</u>							
Balance at 1 January 2011	3,079	4,547	43,968	16,039	1,414	8,866	77,913
Additions	87	15	720	453	-	515	1,790
Disposals	(1,470)	-	(6,576)	(8,361)	(89)	-	(16,496)
Adjustments	-	-	4,277	65	(32)	(149)	4,161
Balance at 31 December 2011	1,696	4,562	42,389	8,196	1,293	9,232	67,368
<u>Accumulated Depreciation</u>							
Balance at 1 January 2011	(711)	(4,147)	(27,156)	(12,820)	(647)	(7,515)	(52,996)
Charge for the year	-	(143)	(372)	(1,338)	(221)	(404)	(2,478)
Impairment during the year	249	-	825	2,322	-	-	3,396
Disposals	-	-	767	5,960	85	-	6,812
Adjustments	-	-	2,663	(29)	10	(8)	2,636
Balance at 31 December 2011	(462)	(4,290)	(23,273)	(5,905)	(773)	(7,927)	(42,630)
Net Book Value at 31 December 2011	1,234	272	19,116	2,291	520	1,305	24,738

At 31 December 2011, the net carrying amount of leased property and equipment is TL 408.

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14. INVESTMENT PROPERTY

	31 December 2012	31 December 2011
Fair value of investment properties	240,370	226,805
	240,370	226,805

The Group's investment properties are held under freehold interests.

The Group's investment properties belong to the Group's subsidiary operating in the real-estate investment trust sector. The fair values of the investment properties are determined in reports issued on 31 December 2012 by companies listed on CMB's List of Real Estate Appraisal Companies as TL 18,650, TL 10,100 and TL 211,620. TL 3,228 of fair value difference is recognized under other operating income in the accompanying consolidated financial statements (31 December 2011: TL 226,805 net book value, TL 9,218 fair value difference).

The total external rent income earned by the Group from its investment properties is TL 9,518 in the current period (31 December 2011: TL 8,931). The management states that there is no material operating expenses arising on its investment properties for the year.

The movement of investment properties as at 31 December 2012 and 31 December 2011 are as follows:

<u>Current Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	7,360	-	-	2,740	10,100
Pendorya Mall	203,845	6,433	(107)	1,449	211,620
Adana Hotel Project	15,600	4,697	(686)	(961)	18,650
Total	226,805	11,130	(793)	3,228	240,370

<u>Prior Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	6,265	-		1,095	7,360
Pendorya Mall	195,290	1,027	(3)	7,531	203,845
Adana Hotel Project	11,726	3,568	(286)	592	15,600
Total	213,281	4,595	(289)	9,218	226,805

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15. INTANGIBLE ASSETS

The intangible fixed assets include software that are amortised principally on straight line basis which amortise the assets over their expected useful lives.

	31 December 2012	31 December 2011
<u>Acquisition cost</u>		
Balance at 1 January	4,030	3,627
Additions	508	403
Balance at 31 December	4,538	4,030
<u>Accumulated amortisation</u>		
Balance at 1 January	(3,160)	(2,770)
Charge for the year	(362)	(390)
Balance at 31 December	(3,522)	(3,160)
Net Book Value, as at 31 December	1,016	870

16. OTHER ASSETS

	31 December 2012	31 December 2011
Prepaid expenses	14,144	16,663
Cash guarantees given	12,627	34,993
VAT carried forward	12,129	13,096
Receivables from brokerage customers	6,182	45,728
Prepaid taxes	3,232	1,668
Trade receivables	1,338	1,888
Receivables from personnel	171	182
Advances given	43	86
Other	3,383	13,266
Total	53,249	127,570

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The securities sold under repurchase agreements and corresponding obligations are as follows:

	2012 Carrying Value of Underlying Securities	2012 Carrying Value of Corresponding Liability	2012 Repurchase Value
Available for sale investment securities	1,314,982	1,235,179	1,235,470
	1,314,982	1,235,179	1,235,470

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17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS (continued)

	2011 Carrying Value of Underlying Securities	2011 Carrying Value of Corresponding Liability	2011 Repurchase Value
Available for sale investment securities	843,094	818,208	819,646
Held to maturity investment securities	124,046	129,546	129,561
	967,140	947,754	949,207

The repurchase agreements have maturity periods between three days to six months. The Group has applied interest rates of 0.31%-1.25% for foreign currency, 5.01%-6.50% for Turkish Lira agreements (31 December 2011: 0.50%-2.30% for foreign currency, 5.75%-11.42% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 873 (2011: TL 775).

18. FUNDS BORROWED

	31 December 2012	31 December 2011
Short-term	413,484	557,548
Medium and long-term	6,616,121	6,227,987
Total	7,029,605	6,785,535
Short-term portion of medium and long-term funds borrowed	503,204	498,038
	31 December 2012	31 December 2011
Foreign currencies	6,886,786	6,761,772
Turkish Lira	142,819	23,763
Total	7,029,605	6,785,535

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18. FUNDS BORROWED (continued)

	31 December 2012	31 December 2011
<u>Foreign Currency Borrowings</u>		
International Bank for Reconstruction and Development (IBRD)		
-Export Finance Intermediation Loan (EFIL) II	404,049	487,505
-Export Finance Intermediation Loan (EFIL) III	464,054	549,896
-Export Finance Intermediation Loan (EFIL) IV	922,594	645,144
-IBRD-Renewable Energy Loan (REL)	1,165,898	1,016,793
-IBRD-Small Medium Enterprises (SME)	191,723	223,655
	3,148,318	2,922,993
European Investment Bank (EIB)	2,128,927	1,983,143
Council of European Development Bank (CEB)	513,945	592,719
Kreditanstalt Für Wiederaufbau (KfW)	367,733	357,949
Association of French Development (AFD)	270,144	314,337
Syndicated Loan	179,803	241,376
Barclays Bank	-	65,825
European Bank for Reconstruction and Development (EBRD)	118,226	48,890
Instituto de Credito Oficial	422	1,701
Intesa Trade Facility	11,669	-
Domestic bank borrowings	78,936	232,839
International Finance Corporation	44,285	-
Cash borrowings through promissory notes	24,378	-
	3,738,468	3,838,779
Total foreign currency borrowings	6,886,786	6,761,772
<u>Turkish Lira Borrowings</u>		
Domestic bank borrowings	142,819	10,006
Garanti Bank International NV	-	13,757
Total Turkish Lira borrowings	142,819	23,763
Total	7,029,605	6,785,535

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18. FUNDS BORROWED (continued)

IBRD Funds

IBRD EFIL II:

-Variable interest rate of 0.98% for US Dollar (31 December 2011: 0.66% for US Dollar), repayable in scheduled instalments up to 15 January 2020.

IBRD EFIL III:

-Variable interest rate of 1.05% for US Dollar (31 December 2011: 0.66% for US Dollar) and variable interest rate of 0.96% for Euro (31 December 2011: 2.06% for Euro), repayable in scheduled instalments up to 15 January 2021.

IBRD EFIL IV:

-Variable interest rate of 0.78-0.98% for US Dollar (31 December 2011: 0.46-1.26%) and variable interest rate of 0.76-0.79% for Euro (31 December 2011: 1.86-2.16%), repayable in scheduled instalments up to 15 December 2038.

IBRD REL:

-Variable interest rate of 0.93% for US Dollar (31 December 2011: 0.77% for US Dollar), repayable in scheduled instalments up to 15 September 2021.

IBRD REL 2:

-Variable interest rate of 0.75-0.98% for US Dollar (31 December 2011: 0.61%) and variable interest rate of 0.48-0.79%, for Euro (31 December 2011: 1.78%) repayable in scheduled instalments up to 15 June 2039.

IBRD CTF REL 2:

-Variable interest rate of 0.75% for US Dollar (31 December 2011: 0.75%), repayable in scheduled instalments up to 15 March 2029.

IBRD SME:

-Variable interest rate of 0.73% for US Dollar (31 December 2011: 0.57% for US Dollar), and variable interest rate of 0.48% for Euro (31 December 2011: 1.76% for Euro), repayable in scheduled instalments up to 15 March 2021.

EIB Funds

EIB APEX GLOBAL LOAN:

-Variable interest rates of 0.43-0.58% for Euro (31 December 2011: 1.68-1.83% for Euro), repayable in scheduled instalments up to 15 March 2016.

EIB (Pollution Fund):

-Interest rate of 1.84% for Euro (31 December 2011: 1.77-2.23% for Euro), repayable in scheduled instalments up to 15 April 2013.

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18. FUNDS BORROWED (continued)

EIB Funds (continued)

EIB REL

-Variable interest rates of 0.47-0.74 % for Euro (31 December 2011: 1.80-2.07 % for Euro), and variable interest rate of 0.71-1.07% for US Dollar (31 December 2011: 0.84-1.20% for US Dollar), repayable in scheduled instalments up to 15 November 2024.

EIB REL 2:

-Variable interest rates of 0.75-1.90% for Euro (31 December 2011: 0.95-2.30%) and variable interest rate of 1.07%-2.30% for US Dollar (31 December 2011: 1.04%-1.06%), repayable in scheduled instalments up to 14 June 2027.

EIB SME DEVELOPMENT GLOBAL LOAN:

-Variable interest rates of 0.57-0.58% for Euro (31 December 2011: 1.80-1.81% for Euro) and variable interest rate of 0.78-0.85% for US Dollar (31 December 2011: 0.62-0.69% for US Dollar), repayable in scheduled instalments up to 15 September 2019.

EIB INDUSTRIAL SECTOR GLOBAL LOAN II

-Variable interest rate of 0.48% for Euro (31 December 2011: 1.73% for Euro) and variable interest rate of 0.61% for US Dollar (31 December 2011: 0.85% for US Dollar), repayable in scheduled instalments up to 15 June 2013.

EIB INDUSTRIAL SECTOR GLOBAL LOAN III

-Variable interest rate of 0.58% for Euro (31 December 2011: 1.83% for Euro) and variable interest rate of 0.71% for US Dollar (31 December 2011: 0.95% for US Dollar), repayable in scheduled instalments up to 15 March 2015.

EIB INDUSTRIAL SECTOR GLOBAL LOAN IV

-Variable interest rates of 0.43-0.58% for Euro (31 December 2011: 1.68-1.83% for Euro) and variable interest rates of 0.64-0.79% for US Dollar (31 December 2011: 0.80-0.95% for US Dollar), repayable in scheduled instalments up to 15 September 2015.

EIB INDUSTRIAL SECTOR GLOBAL LOAN V

-Variable interest rates of 0.43% for Euro (31 December 2011: 1.68% for Euro) and variable interest rate of 0.56% for US Dollar (31 December 2011: 0.80% for US Dollar), repayable in scheduled instalments up to 15 September 2017.

EIB INDUSTRIAL HEAT AND POWER AUTOPRODUCTION GLOBAL LOAN PROJECT

-Variable interest rates of 0.33% for Euro and 0.46% for US Dollar (31 December 2011: 1.58% for Euro; 0.70% for US Dollar), repayable in scheduled instalments up to 15 September 2017.

EIB SME DEVELOPMENT LOAN II

-Variable interest rates of 0.59-0.80% for Euro; 0.96-1.18% for US Dollar (31 December 2011: 1.94-2.12% for Euro and 0.98-1.17% for US Dollar), repayable in scheduled instalments up to 11 May 2023.

EIB SME 3/A

-Variable interest rates of 1.30-1.81% for Euro; 1.70-2.24% for US Dollar, repayable in scheduled instalments up to 06 November 2024.

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18. FUNDS BORROWED (continued)

EIB Funds (continued)

EIB SME 3/B

-Variable interest rate of 1.34% for Euro; 1.84% for US Dollar, repayable in scheduled instalments up to 08 October 2024.

CEB

-Variable interest rates of 0.67-1.14% for Euro and variable interest rates of 0.91-1.51% for US Dollar (31 December 2011: 2.03-2.50% for Euro, 0.90-1.61 for US Dollar), repayable in scheduled instalments up to 15 November 2021.

KFW

KFW:

-Variable interest rates of 0.34-0.99% for Euro (31 December 2011: 1.70% for Euro), repayable in scheduled instalments up to 31 May 2018.

KFW SME:

-Interest rate of 2.00% for Euro (31 December 2011: 2.00% for Euro), repayable in scheduled instalments up to 30 December 2032.

KFW (Pollution Fund):

-Interest rate of 2.00% for Euro (31 December 2011: 2.00% for Euro), repayable in instalments up to 30 December 2032.

KFW (1st Tranche):

-Variable interest rate of 0.47% for US Dollar (31 December 2011: 0.72% for US Dollar), repayable in scheduled instalments up to 30 June 2020.

KFW (2nd Tranche):

-Variable interest rate of 0.81% for US Dollar (31 December 2011: 1.06% for US Dollar), repayable in scheduled instalments up to 30 June 2020.

KFW (3rd Tranche):

-Interest rate of 2.89% for Euro (31 December 2011: 2.89%), repayable in scheduled instalments up to 30 December 2022.

KFW (Municipality Infrastructure):

-Interest rate of 2.75% for Euro (31 December 2011: 2.75%), repayable in scheduled instalments up to 30 December 2030.

AFD

AFD 1:

-Variable interest rate of 1.08% for Euro (31 December 2011: 2.22% for Euro), repayable in scheduled instalments up to 31 January 2017.

AFD 2:

-Variable interest rate of 0.55% for Euro, (31 December 2011: 1.91%) repayable in scheduled instalments up to 30 November 2018.

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18. FUNDS BORROWED (continued)

AFD (continued)

AFD 3:

-Variable interest rate of 0.25% for Euro, (31 December 2011: 1.17%) repayable in scheduled instalments up to 31 July 2021.

SYNDICATED LOAN

-The Bank had attended the two different syndicated agreements that were named as Syndicated XI and Syndicated XII through 31 December 2012. Variable interest rate of 1.73% for US Dollar Syndicated Loan XI and variable interest rate of 1.93% for Euro Syndicated Loan XII; both repayable on 04 July 2013. The Bank had attended the two different syndicated agreements that were named as Syndicated IX and Syndicated X through 31 December 2011. Variable interest rate of 1.09% for US Dollar Syndicated Loan IX and variable interest rate of 2.47% for Euro Syndicated Loan X; both repayable on 25 June 2012.

EBRD

-Variable interest rate of 2.76-2.94% for Euro, (31 December 2011: 3.16%) repayable in scheduled instalments up to 18 July 2017.

INSTITUTO DE CREDITO OFICIAL

-Interest rate of 4.00% for US Dollar (31 December 2011: 4.00% for US Dollar), repayable in scheduled instalments up to 17 April 2013.

INTESA TRADE FINANCE FACILITY

-Variable interest rate of 1.62% for Euro and repayable in scheduled instalments up to 17 June 2013.

INTERNATIONAL FINANCE CORPORATION (IFC REL)

-Variable interest rate of 4.01% for US Dollar and repayable in scheduled instalments up to 15 December 2018.

CASH BORROWINGS THROUGH PROMISSORY NOTES

-Variable interest rate of 3.97% for US Dollar and variable interest rate of 3.90% for Euro, repayable in scheduled instalments up to 11 July 2013 for US Dollar and 12 July 2013 for Euro.

19. DEBT SECURITIES ISSUED

In the current year, there is no debt securities issued (31 December 2011: None).

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20. OTHER LIABILITIES

	31 December 2012	31 December 2011
Unearned revenue	57,481	66,817
Payment orders	21,217	106
Payables to clearing accounts	12,406	54,162
Cash guarantees	10,128	10,419
Deposits and advances taken for imports	1,945	1,463
Other	3,417	9,974
Total	106,594	142,941

21. TAXATION

Corporate Tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2012 (31 December 2011: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2012 is 20% (31 December 2011: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

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21. TAXATION (continued)

Income Withholding Tax (continued)

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The effective tax rate has been taken as 20% in 2012 (31 December 2011: 20%).

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Deferred Tax

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2011: 20%) is used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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21. TAXATION (continued)

a) Statement of financial position:

	31 December 2012	31 December 2011
Corporate tax provision	94,286	49,201
Corporate tax paid in advance	(64,596)	(35,618)
Corporate tax liability	29,690	13,583

b) Income statement:

	31 December 2012	31 December 2011
Corporate tax expense	94,286	51,040
Deferred tax (income) / expense	(19,060)	19,840
	75,226	70,880

In addition, TL 32,274 deferred tax, which is calculated over the fair value differences on financial assets available for sale, is offset against the “unrealized gains / losses on available for sale investment securities” item under equity (31 December 2011: TL 4,211).

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	31 December 2012	31 December 2011
Loan commissions	11,496	12,090
Impairment losses on loans	6,335	2,608
Reserve for employee severance indemnity and unused vacation provision	1,778	1,172
Valuation of marketable securities	119	1,131
Others	693	1,826
Total deferred tax asset	20,421	18,827
Valuation of marketable securities	(14,703)	(4,902)
Borrowing commissions	(2,395)	(1,832)
Accruals on derivative financial instruments	(2,004)	(1,076)
Useful life differences on property and equipment	(40)	(735)
Total deferred tax liability	(19,142)	(8,545)

Reflected as:

	31 December 2012	31 December 2011
Deferred tax assets	20,421	18,827
Deferred tax liabilities	(19,142)	(8,545)
Total deferred tax assets, net	1,279	10,282

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21. TAXATION (continued)

Taxation can be reconciled to the profit per the income statement as follows:

	31 December 2012	31 December 2011
<u>Reconciliation of Taxation</u>		
Income before taxation	431,092	360,508
Tax at the statutory income tax rate of 20%	(86,218)	(72,102)
Tax effect of income that is deductible in determining taxable income	10,725	19,892
Tax effect of undeductable expenses	(4,603)	(23,360)
Tax effect of dividend income	4,870	4,690
Income tax expense	(75,226)	(70,880)

Movements in temporary differences for the years ended 31 December 2012 and 2011 are as follows:

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2012				
Loan commissions	12,090	(594)	-	11,496
Impairment losses on loans	2,608	3,727	-	6,335
Reserve for employee severance indemnity and unused vacation provision	1,172	606	-	1,778
Valuation of marketable securities	(3,771)	17,250	(28,063)	(14,584)
Useful life differences on property and equipment	(735)	695	-	(40)
Borrowing commissions	(1,832)	(563)	-	(2,395)
Accruals on derivative financial instruments	(1,076)	(928)	-	(2,004)
Other	1,826	(1,133)	-	693
Net deferred tax asset / (liability)	10,282	19,060	(28,063)	1,279

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2011				
Loan commissions	9,081	3,009	-	12,090
Impairment losses on loans	10,578	(7,970)	-	2,608
Reserve for employee severance indemnity and unused vacation provision	1,058	114	-	1,172
Valuation of marketable securities	(1,087)	(13,234)	10,550	(3,771)
Useful life differences on property and equipment	1,044	(1,779)	-	(735)
Borrowing commissions	(887)	(945)	-	(1,832)
Accruals on derivative financial instruments	(203)	(873)	-	(1,076)
Other	(12)	1,838	-	1,826
Net deferred tax asset / (liability)	19,572	(19,840)	10,550	10,282

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22. EMPLOYEE BENEFITS

	2012	2011
<u>Movement of reserve for employee severance indemnity</u>		
Balance at 1 January	4,752	4,146
Provision for the year	4,419	1,260
Indemnities paid	(1,402)	(654)
Balance at 31 December	7,769	4,752
<u>Movement of provision for unused vacations</u>		
Balance at 1 January	1,107	1,146
Provision for the year	110	-
Reversal of provision	-	(39)
Balance at 31 December	1,217	1,107
<u>Movement of provision for bonus payments</u>		
Balance at 1 January	5,720	-
Provision for the year	6,248	5,720
Bonus paid	(5,870)	-
Income and expenses of the prior period	150	-
Balance at 31 December	6,248	5,720

a) Pension scheme

The Group has established two pension schemes, which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group's assets in the Pension Funds. These schemes are valued by independent actuaries every year. As per the latest actuarial valuation carried out as at 31 December 2012, the Bank has no obligation to book any provision for the Pension Funds. For additional information, please see note 3.23 Employee Benefits.

b) Reserve for employee severance indemnity

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days pay maximum full TL 3,129 as at 31 December 2012 (31 December 2011: full TL 2,732) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	2012	2011
Interest rate	7.80%	8.00%
Expected rate of increase in salaries and eligible ceiling	6.16%	9.36%
Discount rate	1.54%	1.26%

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23. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting to US Dollar 50,000,000. As at 31 December 2012, carrying value of subordinated loan is TL 89,125 (31 December 2011: TL 95,000).

The date of the loan contract is 21 September 2004 and the first usage date was 5 November 2004. The interest rate of the subordinated loan is Libor + 3.25%; which corresponds to 3.85% as at the reporting date. Total repayment of principal of the subordinated loan will be on 15 October 2016 as a whole.

24. CAPITAL AND RESERVES

Share Capital

As at 31 December 2012, the authorized and issued capital consists of 1,100,000,000 shares of 1 Turkish Lira each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

31 December 2012	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ	50.00	550,001	550,001
T. Vakıflar Bankası T.A.O.	8.38	92,152	92,152
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.62	457,829	457,829
Physically Under Custody (Other Institutions and Individuals)	-	18	18
	100.00	1,100,000	1,100,000
<u>Components of Capital:</u>			
Nominal capital		1,100,000	1,100,000
Effect of inflation		13,563	13,563
		1,113,563	1,113,563
<hr/>			
31 December 2011	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ	50.00	400,001	400,001
T. Vakıflar Bankası T.A.O.	8.38	67,020	67,020
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.62	332,969	332,969
Physically Under Custody (Other Institutions and Individuals)	-	10	10
	100.00	800,000	800,000
<u>Components of Capital:</u>			
Nominal capital		800,000	800,000
Effect of inflation		13,563	13,563
		813,563	813,563

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24. CAPITAL AND RESERVES (continued)

Number of listed shares as of 31 December 2012 and 2011 are 594,671,000 and 432,598,000, respectively.

In the meeting of the General Assembly held on 26 March 2012; it has been resolved that, paid-in capital of the Bank will be increased from TL 800.000 to TL 1.100.000 by TL 300.000. In respect of the resolution of the General Assembly, TL 137.000 of this increase will be incorporated from the profit of the year 2011 and the remaining TL 163.000 will be incorporated from extraordinary reserves. The increase in paid-in capital has approved by the BRSA on 10 May 2012, has registered on 6 June 2012 and has been published in the Turkish Trade Registry Gazette No: 8088 on 12 June 2012.

In the prior period, in the meeting of the General Assembly held on 25 March 2011; it has been resolved that, paid-in capital of the Bank will be increased from TL 700.000 to TL 800.000 by TL 100.000. In respect of the resolution of the General Assembly, TL 100.000 of this increase will be incorporated from the profit of the year 2010. The increase in paid-in capital was approved by the BRSA on 12 May 2011 and has been published in the Turkish Trade Registry Gazette No: 7824 on 27 May 2011.

Legal reserves

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

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Dividends

At the Ordinary General Assembly of the Bank held on 26 March 2012, it was decided to distribute a dividend of TL 45,000 to shareholders and TL 5,479 to personnel, members of Board of Directors and to allocate TL 27,936 to legal reserves from retained earnings.

Non-controlling interests

As at the reporting date the non-controlling interests are as follows:

	31 December 2012	31 December 2011
Capital	56,902	78,784
Share premium	205	228
Fair value reserve	15	-
Retained earnings	18,959	21,258
Current period net income	8,146	(2,143)
	84,227	98,127

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25. OTHER OPERATING INCOME

	1 January- 31 December 2012	1 January- 31 December 2011
Provisions released	9,061	41,064
Gain on sale of assets	2,962	11,467
Increase in value of investment properties	3,228	9,218
Rent income	9,518	8,931
Other	4,505	10,463
	29,274	81,143

26. DIVIDEND INCOME

	1 January- 31 December 2012	1 January- 31 December 2011
Available-for-sale securities	2,173	2,035
Trading securities	407	894
Other	3,434	2,293
	6,014	5,222

27. OTHER OPERATING EXPENSES

	1 January- 31 December 2012	1 January- 31 December 2011
Personnel expenses	63,218	57,064
Other administrative expenses	21,494	24,480
Marketing expenses	1,372	3,161
Depreciation and amortisation	2,840	2,867
Taxes and dues other than on income	1,292	435
Other	9,836	4,733
	100,052	92,740

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28. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group is currently organized into two operating divisions – “banking” and “stock brokerage and other”. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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28. SEGMENTS REPORTING (Continued)

CONSOLIDATED INCOME STATEMENT (1 January – 31 December 2012)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	589,384	28,924	618,308	(5,271)	613,037
Interest expense	(158,863)	(34,601)	(193,464)	5,271	(188,193)
Net interest income	430,521	(5,677)	424,844	-	424,844
Net fee and commission income	12,223	14,297	26,520	-	26,520
Net securities trading income / (loss)	(1,792)	4,610	2,818	-	2,818
Net derivative trading income / (loss)	9,579	39,160	48,739	-	48,739
Net foreign currency gains / (losses)	(7,507)	(17,741)	(25,248)	-	(25,248)
Impairment losses on loans and advances to customers, net	(1,274)	(814)	(2,088)	-	(2,088)
Net operating income after impairment losses	441,750	33,835	475,585	-	475,585
Other operating income	22,207	24,329	46,536	(17,262)	29,274
Other operating expenses	(73,220)	(34,379)	(107,599)	7,547	(100,052)
Dividend income	27,711	1,043	28,754	(22,740)	6,014
Share of profit of equity-accounted investees	20,271	-	20,271	-	20,271
Profit before income tax	438,719	24,828	463,547	(32,455)	431,092

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28. SEGMENT REPORTING (continued)

CONSOLIDATED INCOME STATEMENT (1 January – 31 December 2011)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	513,097	28,759	541,856	(7,155)	534,701
Interest expense	(148,773)	(32,964)	(181,737)	7,155	(174,582)
Net interest income	364,324	(4,205)	360,119	-	360,119
Net fee and commission income	9,898	18,354	28,252	-	28,252
Net securities trading income / (loss)	(2,491)	(2,539)	(5,030)	-	(5,030)
Net derivative trading income / (loss)	(26,882)	(27,548)	(54,430)	-	(54,430)
Net foreign currency gains / (losses)	18,422	21,016	39,438	-	39,438
Impairment losses on loans and advances to customers, net	(19,659)	(2,731)	(22,390)	-	(22,390)
Net operating income after impairment	343,612	2,347	345,959	-	345,959
Other operating income	54,903	31,422	86,325	(5,182)	81,143
Other operating expenses	(64,444)	(34,098)	(98,542)	5,802	(92,740)
Dividend income	25,829	1,949	27,778	(22,556)	5,222
Share of profit of equity-accounted investees	20,924	-	20,924	-	20,924
Profit before income tax	380,824	1,620	382,444	(21,936)	360,508

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28. SEGMENT REPORTING (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 31 December 2012</u>					
Total assets	10,310,691	816,152	11,126,843	(289,718)	10,837,125
Total liabilities	8,396,799	512,685	8,909,484	(102,159)	8,807,325
Equity before net profit & non-controlling interests	1,549,724	279,314	1,829,038	(231,185)	1,597,853
Net profit attributable to equity holders of the Bank	364,168	24,153	388,321	(40,601)	347,720
Non-controlling interests	-	-	-	84,227	84,227
Total equity	1,913,892	303,467	2,217,359	(187,559)	2,029,800
Total liabilities and equity	10,310,691	816,152	11,126,843	(289,718)	10,837,125
<u>At 31 December 2011</u>					
Total assets	9,495,992	930,709	10,426,701	(312,332)	10,114,369
Total liabilities	7,986,011	607,845	8,593,856	(115,382)	8,478,474
Equity before net profit & non-controlling interests	1,199,979	322,142	1,522,121	(276,124)	1,245,997
Net profit attributable to equity holders of the Bank	310,002	722	310,724	(18,953)	291,771
Non-controlling interests	-	-	-	98,127	98,127
Total equity	1,509,981	322,864	1,832,845	(196,950)	1,635,895
Total liabilities and equity	9,495,992	930,709	10,426,701	(312,332)	10,114,369

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29. RELATED PARTIES

For the purposes of the accompanying consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying consolidated financial statements include the following balances due from or due to related parties:

	31 December 2012	31 December 2011
<u>Balances with related parties</u>		
Loans and advances to customers	235,062	184,614
Non-cash loans	117,825	117,903
Loans and advances to banks	1,039	990
Available for sale investment securities	7,916	6,003
Other liabilities	2,188	620

	1 January- 31 December 2012	1 January- 31 December 2011
<u>Transactions with related parties</u>		
Interest income	7,244	5,573
Interest expense	5,142	(2)
Dividend income	6,014	5,222
Income from associates	21,271	20,924
Foreign exchange gain (loss), net	(5,047)	10,935
Net fee and commission income / (expense), net	200	(548)
Other income	127	172

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 8,702 (31 December 2011: TL 8,407).

30. COMMITMENTS AND CONTINGENCIES

	31 December 2012	31 December 2011
Letters of guarantee	635,768	689,477
Revocable and irrevocable commitments	2,801,714	4,499,686
Letters of credit	572,564	555,929
Swap and forward agreements	2,827,823	3,499,266
Option agreements	150,889	1,467,754
Other commitments	4,225	22,179
	6,992,983	10,734,291

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30. COMMITMENTS AND CONTINGENCIES (continued)

Fiduciary Activities

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

As at 31 December 2012, the Group manages 5 mutual funds (2011: 11) which were established under the regulations of the CMB. In accordance with these regulations and the charters of the funds, 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.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 3,522,323 as at 31 December 2012 (31 December 2011: TL 3,390,875). As at 31 December 2012, securities at custody with market value amounted to TL 2,316,350 (31 December 2011: TL 1,901,254).

Securites Blocked and Letters of Guarantee Given to Istanbul Stock Exchange (ISE) as Collateral for Trading on Markets

As at 31 December 2012, according to the general requirements of the ISE, letters of guarantee amounting to TL 19,844 (31 December 2011: TL 12,366) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Also, as at 31 December 2012 there is TL 2,102 letters of guarantee were given to the Capital Markets Board (31 December 2011: None).

The Group's trading securities given as collateral or blocked amounted to TL 7,973 at the reporting date (31 December 2011: TL 6,905).

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.

There are 29 legal cases against the Group which are amounting to TL 964 as of the reporting date (31 December 2011: TL 399, 18 legal cases).

There is a lawsuit for the cancellation of the licence of construction dated 16 July 2008 numbered 1120 given for the Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 and related zoning plan dated 6 November 2007 scaled 1/1000 and for motion for stay of execution against Pendik Mayoralty. TSKB GYO is also involved in the instant case and Istanbul 9th Administrative Court ordered the cancellation of the licence and zoning plan with a right of appeal. As a result of the appeal, Council of State also approved the resolution of the Court on 1 December 2011.

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30. COMMITMENTS AND CONTINGENCIES (continued)

In addition, seeking the cancellation of the 1/1000 scaled zoning plan dated 6 November 2007 by the decision of 9th Administrative Court, the plaintiff also filed a lawsuit against Pendik Municipality on the Istanbul 3rd Administrative Court (“the Court”) in order to demand grant a stay of execution suspending the cancellation of the construction and occupancy permits dated 4 December 2009 numbered 101 and 14 December 2009 dated 104 numbered given for Pendorya Mall. The Court issued a stay of execution on 31 December 2010 regarding related occupancy permits and the Court decided on 22 September 2011 to set aside the decision of the case on the basis of that cancellation of the construction licence dated 16 July 2008 numbered 1120 given to TSKB GYO for Pendorya Mall with 4 November 2010 dated resolution is due to the cancellation of 1/1000 scaled Zoning Plan. TSKB GYO, involved in the position to demand the motion for stay of execution of the mentioned cancellation resolution of the Court and has presented the petition of appeal to the Council of State on 4 November 2011. The request for the cancellation of the execution has been rejected on 16 January 2012.

Development functions and construction conditions of the real estates (land use decisions) are permitted by the Zoning Plan. New 1/5000 scaled, 25 December 2010 dated Zoning Plan for the area where Pendorya Shopping Mall is located, has become effective. According to the New 1/5000 scaled Zoning Plan, the related real estate’s functions has been preserved.

In accordance with the new zoning plan, 1/1000 scaled zoning plan has been prepared by Pendik Municipality and approved by the Pendik Municipality Council at 7 October 2011. Subsequent to the approval of 1/1000 scaled zoning plan by Istanbul Metropolitan Municipality, the Pendorya Mall’s both construction licence and occupancy permit renewal application will be made.

Pendorya Mall was built in accordance with the 1/1000 scaled Zoning Plan that was in force at the date of construction and both construction licence and occupancy permits had been obtained in regular form at same date. Land amendment transactions are also completed accordingly. Land Registry records were still registered as a shopping center. Therefore, it is not expected that there will be a problem relating with the existing construction licence, new licence demand or operations of Pendorya Mall. As well as uncertainties about conclusion of lawsuits prevail as of report date, the Group management does not expect a conclusion that would affect financial statements significantly.

Other

The Group’s 1 head office and 14 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 30 cars are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2011: 1 head office, 13 branches and 27 cars are subject to operational leasing).

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31. DERIVATIVE FINANCIAL INSTRUMENTS

	2012	2012	2011	2011
	Assets	Liabilities	Assets	Liabilities
Currency swaps	4,518	(356)	5,362	(7,959)
Options	433	(366)	17,940	(17,940)
Foreign currency forward contracts	2,980	(2,729)	13,965	(12,570)
Interest rate swaps	15,312	(17,546)	8,086	(10,274)
	23,243	(20,997)	45,353	(48,743)

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, USD and Euro.

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	31 December	31 December
	2012	2011
Forward foreign exchange contracts – buy	237,888	618,562
Forward foreign exchange contracts – sell	237,629	616,285
Currency swaps – buy	356,342	443,978
Currency swaps – sell	350,090	443,525
Interest rate swaps – buy	822,937	688,458
Interest rate swaps – sell	822,937	688,458
Currency option – buy	59,630	708,923
Currency option – sell	60,059	708,923
Interest option – buy	15,600	24,954
Interest option – sell	15,600	24,954
Other	-	1,939

32. DIVIDENDS

In March 2012, TL 50,479 dividends were paid to shareholders. In March 2011, the dividends paid were TL 48,181.

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33. FAIR VALUES OF FINANCIAL INSTRUMENTS

As at 31 December 2012 and 31 December 2011, fair values of financial assets and liabilities are as follows:

	31 December 2012		31 December 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interbank money market placements	-	-	102,437	102,437
Funds lent under repurchase agreements	199	199	6,928	6,928
Trading assets	17,926	17,926	104,972	104,972
Derivative assets	23,243	23,243	45,353	45,353
Loans and advances to customers	6,807,430	6,854,480	6,281,981	6,329,031
Available for sale investment securities	2,885,281	2,885,281	2,318,238	2,318,238
Held to maturity investment securities	-	-	126,955	132,610
Other assets	53,249	53,249	127,570	127,570
Obligations under repurchase agreements	1,235,179	1,235,179	947,754	947,754
Derivative liabilities	20,997	20,997	48,743	48,743
Funds borrowed and subordinated loans	7,118,730	7,118,730	6,880,535	6,880,535
Payables to stock exchange money market	267,449	267,449	420,609	420,609
Current account of loan customers	9,745	9,745	7,894	7,894
Other liabilities	106,588	106,588	142,941	142,941

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.

Funds borrowed

Management has estimated that the fair value of certain funds borrowed recorded at amortised cost that are of a contractual nature, are not materially different than their carrying values. Management believes that the carrying values of these particular financial liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

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33. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

The fair values of financial assets and financial liabilities are determined and grouped 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 (excluding derivative instruments) 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.

The consolidated financial statements include holdings in unlisted shares which are measured at their historical costs as fair values could not be determined reliably.

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33. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

31 December 2012	Total	Level 1	Level 2	Level 3
Financial Assets				
Trading assets	17,926	17,926	-	-
Government bonds and Treasury bills	7,753	7,753	-	-
Eurobonds	733	733	-	-
Equity shares	2,581	2,581	-	-
Mutual funds	855	855	-	-
Debt securities issued by corporations	6,004	6,004	-	-
Derivative assets	23,243	-	23,243	-
Available for sale investment securities	2,885,281	2,200,145	660,362	24,774
Government bonds and Treasury bills	2,127,232	2,127,232	-	-
Eurobonds	342,798	-	342,798	-
Equity shares	41,545	16,771	-	24,774
Mutual funds	4,549	-	4,549	-
Debt securities issued by corporations	369,157	56,142	313,015	-
Financial Liabilities				
Derivative liabilities	20,997	-	20,997	-
31 December 2011	Total	Level 1	Level 2	Level 3
Financial Assets				
Trading assets	104,972	104,972	-	-
Government bonds and treasury bills	84,339	84,339	-	-
Equity shares	15,239	15,239	-	-
Mutual funds	1,045	1,045	-	-
Debt securities issued by corporations	4,349	4,349	-	-
Derivative assets	45,353	-	45,353	-
Available for sale investment securities	2,318,238	1,347,211	947,351	23,676
Government bonds and Treasury bills	1,674,809	1,292,101	382,708	-
Eurobonds	321,729	-	321,729	-
Equity shares	27,887	4,211	-	23,676
Debt securities issued by corporations	293,813	50,899	242,914	-
Financial Liabilities				
Derivative liabilities	48,743	-	48,743	-

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2012 is as follows:

	31 December 2012	31 December 2011
Balance at the beginning of the year	23,676	23,960
Purchases	1,098	2,895
Redemption or sales	-	(3,179)
Closing balance	24,774	23,676

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34. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated income statement are calculated by dividing the net earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

A summary of the weighted average number of shares outstanding for the year ended 31 December 2012 and 31 December 2011 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 31 December 2012	1 January – 31 December 2011
Number of shares outstanding at 1 January	800,000,000	700,000,000
<i>New shares issued</i>		
Conversion of existing reserves (*)	300,000,000	100,000,000
Number of shares outstanding at the period end	1,100,000,000	800,000,000
Weighted average number of shares during the period (*)	1,100,000,000	1,100,000,000
Net profit (TL)	355,866	289,628
Basic and diluted earnings per share (in full TL)	0.3235	0.2633

(*) Capital increase is made through internal resources and prior period's earnings per share figure is revised by using the number of shares subsequent to the capital increase.

35. EVENTS AFTER THE REPORTING PERIOD

In the meeting of the General Assembly held on 26 March 2013; it has been resolved that, paid-in capital of the Bank would be increased from TL 1,100,000 to TL 1,300,000. In respect of the resolution of the General Assembly, TL 168,000 of this increase was transferred from the profit of the year 2012 and TL 32,000 from extraordinary reserves.

At the General Assembly of the Bank held on 26 March 2013, it was decided to distribute a dividend of TL 60,000 to shareholders and TL 6,296 to personnel and members of the Board of Directors and to allocate TL 33,392 to legal reserves from retained earnings. At 27 March 2013, dividend has been paid to personnel and the members of the Board of Directors and shareholders.

In the Board of Directors meeting held on 26 December 2012, General Management was authorized for sale of Parent Bank's İş Yatırım Ortaklığı AŞ Group A shares with a rate of 1.43% and with a number of 2,297,411 of İş Yatırım Ortaklığı AŞ's capital amounting to TL 160,599 to İş Yatırım Menkul Değerler AŞ, in accordance with pricing principles of IMKB Wholesale Market Foundation and Operation Fundamentals Circular. Sales transaction occurred on 11 February 2013.