



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

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

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

**10 April 2014**

*This report contains 1 page of independent auditors' report on consolidated financial statement 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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## 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 2013, and the consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the consolidated financial statements*

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

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

Istanbul,  
10 April 2014

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013**

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

<b>ASSETS</b>	<b>Notes</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Cash and cash equivalents	5	107	250
Balances with central bank	6	78,155	27,798
Reserve deposits at central bank	6	266,778	104,618
Loans and advances to banks	7	421,304	440,075
Interbank money market placements	5	50	-
Funds lent under repurchase agreements	5	-	199
Financial assets at fair value through profit or loss		60,248	41,169
- Trading assets	8	19,561	17,926
- Derivative assets	31	40,687	23,243
Loans and advances to customers	9	9,060,422	6,807,430
Investment securities	10	2,976,196	2,885,281
- Available for sale investment securities		2,976,196	2,885,281
Investments in equity-accounted investees	11	234,988	210,047
Goodwill	12	383	383
Property and equipment	13	24,567	23,961
Investment property	14	222,295	240,370
Intangible assets	15	1,245	1,016
Other assets	16	80,746	53,249
Deferred tax assets	21	14,977	1,279
<b>Total assets</b>		<b>13,442,461</b>	<b>10,837,125</b>

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 2013**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Obligations under repurchase agreements	17	1,604,891	1,235,179
Derivative liabilities	31	57,857	20,997
Funds borrowed	18	9,125,037	7,029,605
Payables to stock exchange money market		251,313	267,449
Current account of loan customers	33	5,954	9,745
Taxes and dues payable		4,522	3,517
Employee benefits	22	15,272	15,234
Corporate tax liability	21	18,137	29,690
Provisions		2,183	190
Other liabilities	20	83,165	106,594
Subordinated loan	23	106,759	89,125
<b>Total liabilities</b>		<b>11,275,090</b>	<b>8,807,325</b>
<b>EQUITY</b>			
Share capital			
Nominal paid in capital	24	1,300,000	1,100,000
Inflation adjustment to capital	24	13,563	13,563
Total capital		1,313,563	1,113,563
Share premium		388	388
Legal reserves		158,911	125,628
Fair value reserve		4,040	133,754
Retained earnings		614,984	572,240
<b>Total equity attributable to equity holders of the Bank</b>		<b>2,091,886</b>	<b>1,945,573</b>
Non-controlling interests	24	75,485	84,227
<b>Total equity</b>		<b>2,167,371</b>	<b>2,029,800</b>
<b>Total liabilities and equity</b>		<b>13,442,461</b>	<b>10,837,125</b>
<b>Commitments and contingencies</b>	30	<b>9,931,690</b>	<b>6,992,983</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER**  
**COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

	Notes	1 January – 31 December 2013	1 January – 31 December 2012
Interest income			
Interest income on loans		393,569	332,958
Interest on money market placements		13,997	6,857
Interest income on securities		229,151	248,776
Interest income on deposits at banks		20,236	23,168
Interest income on finance leases		306	1,066
Other interest income		231	212
<b>Total interest income</b>	<b>28</b>	<b>657,490</b>	<b>613,037</b>
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(79,638)	(94,733)
Interest expense on funds borrowed and subordinated loan		(96,217)	(93,343)
Other interest expenses		(47)	(117)
<b>Total interest expense</b>	<b>28</b>	<b>(175,902)</b>	<b>(188,193)</b>
<b>Net interest income</b>		<b>481,588</b>	<b>424,844</b>
Fee and commission income		32,445	29,842
Fee and commission expense		(4,578)	(3,322)
<b>Net fee and commission income</b>		<b>27,867</b>	<b>26,520</b>
Securities trading income / (losses), net		4,391	2,818
Derivative trading income / (losses), net		(46,359)	48,739
Foreign exchange gains / (losses), net		17,233	(25,248)
<b>Net trading income</b>	<b>28</b>	<b>(24,735)</b>	<b>26,309</b>
Net impairment loss on financial assets		(5,851)	(2,088)
<b>Net operating income after impairment losses</b>		<b>478,869</b>	<b>475,585</b>
Other operating income	25	22,781	29,274
Other operating expenses	27	(140,606)	(100,052)
Dividend income	26	15,715	6,014
Share of profit of equity-accounted investees	11	31,975	20,271
<b>Profit before income tax</b>		<b>408,734</b>	<b>431,092</b>
Income tax expense	21	(74,543)	(75,226)
<b>Profit for the year</b>		<b>334,191</b>	<b>355,866</b>

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

	Notes	1 January – 31 December 2013	1 January – 31 December 2012
<b>Other comprehensive income</b>			
<b>Items that will never be reclassified to profit or loss:</b>			
Remeasurement of employee termination benefits		488	-
Related tax		(95)	-
		<b>393</b>	<b>-</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Net change in fair value of available for sale financial assets		(159,185)	145,177
Net change in fair value of available for sale financial assets transferred to profit or loss		6,423	(756)
Non-controlling interest share on fair value change in subsidiaries		(7,032)	(230)
Related tax		30,080	(28,063)
<b>Other comprehensive income for the year, net of tax</b>		<b>(129,321)</b>	<b>116,128</b>
<b>Total comprehensive income for the year</b>		<b>204,870</b>	<b>471,994</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		342,930	347,720
Non-controlling interests	24	(8,739)	8,146
<b>Profit for the year</b>		<b>334,191</b>	<b>355,866</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		213,609	463,848
Non-controlling interests	24	(8,739)	8,146
<b>Total comprehensive income for the year</b>		<b>204,870</b>	<b>471,994</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share	34	0.2571	0.2737

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

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

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 2013**

(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	Non-controlling Interests	Total Equity
Balance at 1 January 2013		1,100,000	13,563	388	125,628	133,754	572,240	84,227	2,029,800
Total comprehensive income for the year									
Profit		-	-	-	-	-	342,930	(8,739)	334,191
Other comprehensive income									
Remeasurement of employee termination benefits		-	-	-	-	-	488	-	488
Net change in fair value of available for sale financial assets		-	-	-	-	(159,185)	-	-	(159,185)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	6,423	-	-	6,423
Non-controlling interest share on fair value change in subsidiaries		-	-	-	-	(7,032)	-	(13)	(7,045)
Tax on other comprehensive income		-	-	-	-	30,080	(95)	-	29,985
Total other comprehensive income		-	-	-	-	(129,714)	393	(13)	(129,334)
Total comprehensive income for the year		-	-	-	-	(129,714)	343,323	(8,752)	204,857
Transactions with owners, recognized directly in equity									
Capital increase	24	200,000	-	-	-	-	(200,000)	-	-
Dividend distribution		-	-	-	-	-	(67,296)	-	(67,296)
Transfer to legal reserves		-	-	-	33,392	-	(33,392)	-	-
Other		-	-	-	(109)	-	109	10	10
Total contributions by and distributions to owners		200,000	-	-	33,283	-	(300,186)	-	(66,903)
Balance at 31 December 2013	24	1,300,000	13,563	388	158,911	4,040	614,984	75,485	2,167,371

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

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

	Notes	31 December 2013	31 December 2012
<b>Cash flows from operating activities:</b>			
Profit for the period		334,191	355,866
<i>Adjustments for:</i>			
Net interest income		(481,588)	(424,844)
Depreciation of property and equipment	13	2,603	2,491
Amortisation of intangible assets	15	401	362
Net impairment losses on loans and advances	9	(1,272)	(9,061)
Reserve for employee severance indemnity	22	602	4,419
Provision for unused vacations	22	337	110
Provision for bonus payments	22	6,596	6,248
Share of profit of equity-accounted investees		(31,975)	(20,271)
Income tax expense	21	74,543	75,226
Gain / (loss) on sale of property and equipment		(33)	(3,418)
Unrealized gains		130,493	54,627
Non-controlling interests	24	8,739	(8,146)
<b>Operating profit before changes in operating assets / liabilities</b>		<b>43,637</b>	<b>33,609</b>
<b>Changes in operating assets and liabilities:</b>			
Change in loans and leasing receivables		(1,443,510)	(1,011,855)
Change in other assets		(41,852)	92,809
Change in other creditors, taxes and liabilities		340,126	52,836
		<b>(1,101,599)</b>	<b>(832,601)</b>
Interest received		741,650	492,247
Interest paid		(174,523)	(191,485)
Income taxes paid		(70,503)	(78,649)
Indemnities paid	22	(1,249)	(1,402)
Bonus paid	22	(6,586)	(5,870)
Dividends received		9,777	6,014
<b>Net cash used in operating activities</b>		<b>(603,033)</b>	<b>(611,746)</b>
<b>Cash flows from investing activities:</b>			
Reserve requirements with the Central Bank		(162,160)	8,291
Change in trading securities		(1,741)	87,257
Change in available for sale investment securities		(315,325)	(307,081)
Change in held to maturity investment securities		-	95,787
Change in equity participations		-	746
Purchases of property and equipment and investment property		(17,258)	(13,613)
Sale of property and equipment		1,605	3,865
Purchase of intangible assets	15	(630)	(508)
<b>Net cash used in investing activities</b>		<b>(495,509)</b>	<b>(125,256)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from funds borrowed		2,051,498	1,512,884
Repayment of funds borrowed		(871,332)	(791,033)
Proceeds from debt securities issued		-	-
Dividends paid	32	(67,296)	(50,479)
<b>Net cash provided from financing activities</b>		<b>1,112,870</b>	<b>671,372</b>
<b>Net decrease in cash and cash equivalents</b>		<b>14,328</b>	<b>(65,630)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>5</b>	<b>466,659</b>	<b>534,689</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents held</b>		<b>17,280</b>	<b>(2,400)</b>
<b>Cash and cash equivalents at 31 December</b>	<b>5</b>	<b>498,267</b>	<b>466,659</b>

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 2013**

*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 2013**

*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, İstanbul, Turkey.

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

TSKB started its journey in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. 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 2012: 50.00% and 8.38%, respectively).

The Bank has opened two branches in İzmir and Ankara in April 2006 to enhance marketing and valuation operations.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2013 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 İstanbul 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.

**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 in Borsa İstanbul (“BIST”) since April 2010.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013**

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

**1. REPORTING ENTITY (continued)**

**Information about the consolidated subsidiaries and associates (continued)**

**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 Istanbul/Turkey.

**İş Faktoring AŞ**

İş Faktoring 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 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's headquarters is located at Istanbul/Turkey.

**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").

The accompanying consolidated financial statements were authorized for issue by the Bank management on 10 April 2014.

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013**

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

**2. BASIS OF PREPARATION (continued)**

**2.2. Basis of Measurement (continued)**

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.

**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.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013**

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

**2. BASIS OF PREPARATION (Continued)**

**2.4 Use of Estimates and Judgments (Continued)**

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.

*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.

The Group's accounting policy on fair value measurements is discussed in Note 3.8 – *measurement*.

*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.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Changes in accounting policies***

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

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

***(a) Subsidiaries***

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013. As a consequence, the change had no significant impact on the consolidated investees of the Group.

***(b) Interest in other entities***

As a result of IFRS 12, since the impact of the change in accounting policy is not material, additional disclosures have not been expanded by the Group.

***(c) Fair value measurement***

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in financial statements for financial instruments; accordingly, the Group has included disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

***(d) Offsetting financial assets and financial liabilities***

As a result of the amendments to IFRS 7, since the figures are not material, the Group has not expanded disclosures about offsetting financial assets and financial liabilities.

***(e) Presentation of items of other comprehensive income***

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Defined benefit plans**

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

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

**3.1 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 Faktoring 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	46.58
Terme Metal Sanayi ve Ticaret AŞ	Manufacturing	17.83
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	Warehousing	10.00
Sürdürülebilir Danışmanlık AŞ	Consultancy	-

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.1 Basis of Consolidation (continued)**

***Business Combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

***Non-controlling interests***

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

***Subsidiaries***

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

***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***

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised 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).

As at 31 December 2013 and 31 December 2012, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2013 and 31 December 2012, exchange rates of US Dollar and Euro are as follows:

	2013		2012	
	Period End	Average	Period End	Average
1 US Dollar	2.1200	1.8881	1.7680	1.7856
1 Euro	2.9226	2.5091	2.3324	2.2956

**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 Income tax**

Income tax 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
- taxable temporary differences arising on the initial recognition of goodwill.

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.

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.

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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;
- 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.

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. 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.

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*

Policy applicable after 1 January 2013:

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

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

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

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

Policy applicable before 1 January 2013:

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

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

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price.



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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

*Fair value measurement (continued)*

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

*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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 Financial assets and financial liabilities (continued)**

*Identification and measurement of impairment (continued)*

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.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

As of the reporting date, the Group has no held-to-maturity investments.

***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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.14 Property and Equipment (continued)**

*Recognition and Measurement (continued)*

*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.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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 within 3 years as of the enactment date of the Banking Act.

Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled 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 of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning 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, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 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.



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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.23 Employee benefits (continued)**

Present value for the liabilities of the transferees as of 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, SDIF, 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.

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. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No:2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No:28636 and transfer need to be completed until 8 May 2014.

However the Main Opposition Party has appealed to the Constitutional Court on 19 June 2008 for cancellation of some articles, including the first paragraph of 20. Temporary article of the Law, and requested them to be ineffective until the case of revocatory action is finalized. The application of the Main Opposition Party was rejected by the Higher Court with the resolution dated 30 March 2011.

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 of 31 December 2013 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 24 January 2014. There is no need for technical or actual deficit to book provision as of 31 December 2013.

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 cause any extra burden on the Bank.

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.23 Employee benefits (continued)**

*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.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument 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 derivatives embedded in contracts with a host that is a financial asset within the scope of the standard not to be separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

The mandatory effective date of IFRS 9 will be 1 January 2018.

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

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

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

**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 borrowers						
Private Sector	8,482,801	6,303,594	401,170	265,047	234,988	210,047
Public Sector	5,348	-	2,338,021	2,478,516	-	-
Banks	518,860	469,913	191,555	115,518	421,354	440,274
Retail Customers	53,413	33,923	-	-	-	-
Share Certificates	-	-	55,155	44,126	-	-
<b>Total</b>	<b>9,060,422</b>	<b>6,807,430</b>	<b>2,985,901</b>	<b>2,903,207</b>	<b>656,342</b>	<b>650,321</b>

Loans according to

**geographical**

Domestic	9,011,442	6,782,352	2,945,318	2,794,743	650,779	616,406
European Union	-	333	18,224	24,826	1,912	2,839
OECD Countries (*)	-	-	-	-	1,128	126
Off-Shore Banking Regions	-	-	22,359	83,638	-	-
USA, Canada	-	-	-	-	2,523	30,950
Other Countries	48,980	24,745	-	-	-	-
<b>Total</b>	<b>9,060,422</b>	<b>6,807,430</b>	<b>2,985,901</b>	<b>2,903,207</b>	<b>656,342</b>	<b>650,321</b>

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

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

31 December 2013	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	13,351,272	99	5,395,142	40	9,931,690	100
Euro Zone	16,896	-	4,398,806	33	-	-
Offshore	21,498	-	80	-	-	-
USA, Canada	2,523	-	3,601,881	27	-	-
OECD Countries (*)	1,128	-	46,413	-	-	-
Other Countries	49,144	1	139	-	-	-
	<b>13,442,461</b>		<b>13,442,461</b>		<b>9,931,690</b>	

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

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**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

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	-	-	-
	<b>10,837,125</b>		<b>10,837,125</b>		<b>6,992,983</b>	

(\*) 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 2013	31 December 2012
<b><u>Gross maximum exposure</u></b>		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	766,344	572,741
Interbank money market placements	50	-
Funds lent under repurchase agreements	-	199
Trading assets	18,573	15,345
Derivative financial assets held for trading	40,687	23,243
Loans and advances to customers	9,060,422	6,807,430
Available for sale investment securities	2,924,267	2,843,736
<b>Total</b>	<b>12,810,343</b>	<b>10,262,694</b>



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**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

Credit quality per class of loans and advances as at 31 December 2013 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	421,304	-	-	-	421,304
Loans and advances to customers	9,053,441	37,386	(5,466)	(24,939)	9,060,422
Corporate lending	7,316,431	12,352	(3,950)	(20,105)	7,304,728
Small business lending	1,684,011	23,901	(797)	(4,685)	1,702,430
Other	52,999	1,133	(719)	(149)	53,264
<b>Total</b>	<b>9,474,745</b>	<b>37,386</b>	<b>(5,466)</b>	<b>(24,939)</b>	<b>9,481,726</b>

Credit quality per class of loans and advances 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
<b>Total</b>	<b>7,255,905</b>	<b>23,277</b>	<b>(11,495)</b>	<b>(20,182)</b>	<b>7,247,505</b>

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**4. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

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

	<b>31 December 2013</b>	<b>31 December 2012</b>
Loans and advances to customers		
Corporate lending	16,588	23,390
Small business lending	89,987	4,205
<b>Total</b>	<b>106,575</b>	<b>27,595</b>

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.

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b><u>Basic Loan Quality Categories</u></b>		
Top Grade	325,050	410,632
High Grade	3,463,517	2,877,120
Average Grade	4,551,900	3,254,586
Below Average Grade	1,681,207	1,438,279
Impaired	41,616	22,292
<b>Total</b>	<b>10,063,290</b>	<b>8,002,909</b>

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 10,544,247; and TL 480,957 of these customers have not been rated (31 December 2012: TL 8,051,664; TL 48,745).

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

	<b>31 December 2013 %</b>	<b>31 December 2012 %</b>
Average during the period	140.86	165.47

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**4. FINANCIAL RISK MANAGEMENT (continued)**

***Liquidity risk (continued)***

As at 31 December 2013 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
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	107	107
Balances with central bank	-	-	-	78,155	78,155
Reserve deposits at central bank	250,282	16,496	-	-	266,778
Loans and advances to banks	405,791	-	-	15,513	421,304
Interbank money market placements	50	-	-	-	50
Trading assets	4,027	4,583	9,755	1,196	19,561
Derivative assets	5,930	12,020	22,737	-	40,687
Loans and advances to customers	684,474	1,565,241	6,757,708	52,999	9,060,422
Available for sale investment securities	403,313	676,121	1,842,595	54,167	2,976,196
<b>Total</b>	<b>1,753,867</b>	<b>2,274,461</b>	<b>8,632,795</b>	<b>202,137</b>	<b>12,863,260</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	1,558,936	45,955	-	-	1,604,891
Derivative liabilities	21,720	12,859	23,278	-	57,857
Funds borrowed and subordinated loan	551,813	849,876	7,830,107	-	9,231,796
Payables to stock exchange money market	251,313	-	-	-	251,313
Current account of loan customers	5,954	-	-	-	5,954
Taxes and dues payable	4,522	-	-	-	4,522
Corporate tax liability	18,137	-	-	-	18,137
Employee benefits	6,596	-	-	8,676	15,272
<b>Total</b>	<b>2,418,991</b>	<b>908,690</b>	<b>7,853,385</b>	<b>8,676</b>	<b>11,189,742</b>

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 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
<b>ASSETS</b>					
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
<b>Total</b>	<b>1,149,519</b>	<b>1,558,649</b>	<b>7,453,842</b>	<b>144,810</b>	<b>10,306,820</b>
<b>LIABILITIES</b>					
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
<b>Total</b>	<b>1,925,495</b>	<b>546,520</b>	<b>6,219,546</b>	<b>115,574</b>	<b>8,807,135</b>

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 2013	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Liabilities</b>							
Payables to stock exchange money market	251,789	-	-	-	-	(476)	251,313
Funds borrowed and subordinated loan	421,610	152,117	906,042	3,712,473	4,599,703	(560,149)	9,231,796
Obligations under repurchase agreements	1,559,527	-	46,665	-	-	(1,301)	1,604,891
<b>Total</b>	<b>2,233,167</b>	<b>152,117</b>	<b>952,707</b>	<b>3,712,473</b>	<b>4,599,703</b>	<b>(561,926)</b>	<b>11,088,000</b>

As at 31 December 2012	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Liabilities</b>							
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
<b>Total</b>	<b>1,779,880</b>	<b>123,349</b>	<b>748,224</b>	<b>2,798,639</b>	<b>3,841,923</b>	<b>(670,657)</b>	<b>8,621,358</b>

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

As at 31 December 2013	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Gross settled:</b>							
Swap agreements	629,600	386,582	194,122	2,074,156	473,557	3,498	3,761,515
Forward contracts	7,968	450,195	139,141	-	-	-	597,304
Options	135,566	130,116	301,372	237,706	-	-	804,760
<b>Total</b>	<b>773,134</b>	<b>966,893</b>	<b>634,635</b>	<b>2,311,862</b>	<b>473,557</b>	<b>3,498</b>	<b>5,163,579</b>

As at 31 December 2012	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
<b>Gross settled:</b>							
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
<b>Total</b>	<b>877,526</b>	<b>137,264</b>	<b>331,407</b>	<b>1,042,052</b>	<b>587,097</b>	<b>3,366</b>	<b>2,978,712</b>

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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 2013:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
<b>ASSETS</b>					
Cash and cash equivalents	-	-	-	107	107
Balance with the Central Bank	-	-	-	78,155	78,155
Reserve deposits at central bank	-	-	-	266,778	266,778
Loans and advances to banks	405,791	-	-	15,513	421,304
Interbank money market placements	50	-	-	-	50
Trading assets	16,524	1,841	-	1,196	19,561
Derivative assets	5,930	14,936	19,821	-	40,687
Loans and advances to customers	4,936,441	3,520,605	550,377	52,999	9,060,422
Available for sale investment securities	1,716,740	474,783	730,506	54,167	2,976,196
<b>Total</b>	<b>7,081,476</b>	<b>4,012,165</b>	<b>1,300,704</b>	<b>468,915</b>	<b>12,863,260</b>
<b>LIABILITIES</b>					
Obligations under repurchase agreements	1,558,936	45,955	-	-	1,604,891
Derivative liabilities	21,720	12,895	23,242	-	57,857
Funds borrowed and subordinated loan	6,251,004	2,215,319	765,473	-	9,231,796
Payables to stock exchange money market	251,313	-	-	-	251,313
Current account of loan customers	5,954	-	-	-	5,954
Taxes and dues payable	4,522	-	-	-	4,522
Corporate tax liability	18,137	-	-	-	18,137
Employee benefits	6,596	-	-	8,676	15,272
<b>Total</b>	<b>8,118,182</b>	<b>2,274,169</b>	<b>788,715</b>	<b>8,676</b>	<b>11,189,742</b>



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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
<b>ASSETS</b>					
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
<b>Total</b>	<b>5,689,201</b>	<b>3,306,175</b>	<b>1,062,016</b>	<b>249,428</b>	<b>10,306,820</b>
<b>LIABILITIES</b>					
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
<b>Total</b>	<b>6,780,377</b>	<b>1,567,470</b>	<b>343,714</b>	<b>115,574</b>	<b>8,807,135</b>

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**4. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

**Interest Rate Sensitivity (continued)**

As at 31 December 2013, a summary of average interest rates for different assets and liabilities are as follows:

	<b>TL</b>	<b>Euro</b>	<b>US Dollar</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b><u>Assets</u></b>			
Balances with central bank & banks	8.00	2.97	3.31
Interbank money market placements	9.00	-	-
Trading assets	10.61	-	-
Loans and advances to customers	9.37	3.77	4.16
Lease receivables	-	3.05	-
Available for sale investment securities	9.51	5.45	6.73
<b><u>Liabilities</u></b>			
Obligations under repurchase agreements	6.57	0.51	0.88
Funds borrowed and subordinated loan	9.80	0.89	1.11
Payables to stock exchange money market	8.15	-	-
Current account of loan customers	4.00	0.50	0.50

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

	<b>TL</b>	<b>Euro</b>	<b>US Dollar</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<b><u>Assets</u></b>			
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
<b><u>Liabilities</u></b>			
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

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 2,691 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 (1,659).

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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 2,166 (31 December 2012: TL 3,354), marketable securities classified as financial assets held for trading would decrease/increase by TL 203 (31 December 2012: TL 516 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 2013:

	<b>Euro</b>	<b>US Dollar</b>	<b>Other Foreign Currencies</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents including Central Bank	3,069	33,017	-	36,086
Reserve deposits at Central Bank	139,034	127,744	-	266,778
Loans and advances to banks	141,924	267,247	2,162	411,333
Derivative financial instruments	15,397	16,265	-	31,662
Loans and advances to customers	3,563,092	4,914,340	-	8,477,432
Available for sale investment securities	32,845	345,221	-	378,066
Other assets	1	46,038	-	46,039
<b>Total Assets</b>	<b>3,895,362</b>	<b>5,749,872</b>	<b>2,162</b>	<b>9,647,396</b>
<b>Liabilities</b>				
Obligations under repurchase agreements	6,845	239,386	-	246,231
Derivative financial liabilities held for trading	16,998	15,351	-	32,349
Funds borrowed and subordinated loan	4,158,504	4,999,017	-	9,157,521
Current account of loan customers	1,522	5,351	-	6,873
Other liabilities	2,436	8,868	907	12,211
<b>Total Liabilities</b>	<b>4,186,305</b>	<b>5,267,973</b>	<b>907</b>	<b>9,455,185</b>
<b>Net Statement of Financial Position</b>	<b>(290,943)</b>	<b>481,899</b>	<b>1,255</b>	<b>192,211</b>
<b>Off Balance Sheet Position</b>				
Derivatives to sell	505,646	308,449	14,559	828,654
Derivatives to buy	(356,675)	(819,497)	(14,557)	(1,190,729)
	<b>148,971</b>	<b>(511,048)</b>	<b>2</b>	<b>(362,075)</b>
<b>Net Position</b>	<b>(141,972)</b>	<b>(29,149)</b>	<b>1,257</b>	<b>(169,864)</b>

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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:

	<b>Euro</b>	<b>US Dollar</b>	<b>Other Foreign Currencies</b>	<b>Total</b>
<b>Assets</b>				
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
<b>Total Assets</b>	<b>3,027,903</b>	<b>4,226,956</b>	<b>483</b>	<b>7,255,342</b>
<b>Liabilities</b>				
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
<b>Total Liabilities</b>	<b>3,357,583</b>	<b>3,916,951</b>	<b>33</b>	<b>7,274,567</b>
<b>Net Statement of Financial Position</b>	<b>(329,680)</b>	<b>310,005</b>	<b>450</b>	<b>(19,225)</b>
<b>Off Balance Sheet Position</b>				
Derivatives to sell	416,985	130,153	893	548,031
Derivatives to buy	(174,866)	(392,020)	-	(566,886)
	<b>242,119</b>	<b>(261,867)</b>	<b>893</b>	<b>(18,855)</b>
<b>Net Position</b>	<b>(87,561)</b>	<b>48,138</b>	<b>1,343</b>	<b>(38,080)</b>

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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 2013	31 December 2012	31 December 2013	31 December 2012
US Dollar	10%	18,026	1,022	1,419	3,792
Euro	10%	(36,703)	(8,857)	146	101
Other	10%	126	134	-	-

  

	% Decrease	Effect on profit or loss(*)		Effect on equity(**)	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
US Dollar	10%	(18,026)	(1,022)	(1,419)	(3,792)
Euro	10%	36,703	8,857	(146)	(101)
Other	10%	(126)	(134)	-	-

(\*) 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 2013 and 2012 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 2013 and 2012 was as follows:

	2013 (*)	2012 (*)
Tier 1 capital	2,009,466	1,782,340
Tier 2 capital	138,282	190,483
Deductions from capital	(235,344)	(210,420)
<b>Total regulatory capital</b>	<b>1,912,404</b>	<b>1,762,403</b>
Risk-weighted assets	10,417,150	8,178,638
Value at market risk	331,850	188,763
Operational risk	791,656	702,413
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	16.57%	19.43%
Total Tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	17.41%	19.65%

(\*) 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 compliant to Basel II.

As at 31 December 2013, the Bank's capital adequacy ratio on an unconsolidated basis is 18.15% (31 December 2012: 20.35%). The Group's consolidated capital adequacy ratio as at 31 December 2013 is 16.57% (31 December 2012: 19.43%).

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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 791,656 as at 31 December 2013 (31 December 2012: TL 702,413) 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 2013	31 December 2012
Cash on hand – Turkish Lira ("TL")	107	137
Cash on hand – Foreign currencies ("FC")	-	113
<b>Total cash and cash equivalents</b>	<b>107</b>	<b>250</b>

There is no blockage on the use of cash and cash equivalents as of 31 December 2013 (31 December 2012: None).

	31 December 2013	31 December 2012
Cash and cash equivalents	107	250
Loans and advances to banks (with original maturity of less than 3 months)	421,304	438,412
Unrestricted balances with the central bank	78,155	27,798
Funds lent under repurchase agreements	-	199
Interbank money market placements	50	-
<b>Total cash and cash equivalents in the consolidated statement of financial position</b>	<b>499,616</b>	<b>466,659</b>
Accruals on cash and cash equivalents	(1,349)	-
<b>Total cash and cash equivalents in the consolidated statement of cash flows</b>	<b>498,267</b>	<b>466,659</b>

**6. BALANCES WITH CENTRAL BANK**

**a) Unrestricted balances with central bank**

	31 December 2013	31 December 2012
Demand deposits – TL	42,069	25,328
Demand deposits – FC	36,086	2,470
<b>Total</b>	<b>78,155</b>	<b>27,798</b>



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**6. BALANCES WITH CENTRAL BANK (continued)**

**b) Reserve Deposits at central bank**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Foreign currency reserves	266,778	104,618
<b>Total</b>	<b>266,778</b>	<b>104,618</b>

As per the Communiqué numbered 2005/1 “Reserve Deposits” of the Central Bank of the Republic of Turkey (“CBRT”), banks keep reserve deposits at the CBRT 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 the Republic of Turkey, nr. 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of the Republic of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2013 are presented in table below:

	<b>Foreign Currency Liabilities Required Reserve Rates (%)</b>	<b>Turkish Lira Liabilities Required Reserve Rates (%)</b>
Other liabilities up to 1 year maturity (including 1 year)	13	11.5
Other liabilities up to 1 year maturity (including 1 year)	11	8
Other liabilities longer than 3 years maturity	6	5

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**7. LOANS AND ADVANCES TO BANKS**

	31 December 2013	31 December 2012
<b><u>Domestic Banks</u></b>		
Demand deposits – TL	1,746	2,967
Time deposits – TL	8,226	374,294
Demand deposits – FC	8,204	4,146
Time deposits – FC	397,565	24,753
	<b>415,741</b>	<b>406,160</b>
<b><u>Foreign Banks</u></b>		
Demand deposits – FC	5,563	33,915
	<b>5,563</b>	<b>33,915</b>
<b>Total</b>	<b>421,304</b>	<b>440,075</b>

The time deposits above mature within 1 - 52 days and earn interest at rates ranging 5.90-9.00% for TL balances, 1.00-3.50% for foreign currency balances as at the reporting date (31 December 2012: Maturity: 1 - 80 days; interest rate 8.00-8.65% for TL balances and 3.10-3.90% for foreign currency).

**8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	31 December 2013	31 December 2012
<b><u>Trading assets</u></b>		
Government bonds and treasury bills in TL	8,717	7,753
Debt securities issued by corporations	9,647	6,004
Equity shares	988	2,581
Mutual funds	209	855
Eurobonds	-	733
<b>Total</b>	<b>19,561</b>	<b>17,926</b>

The above government bonds and treasury bills include securities given as collateral or blocked amounting to TL 8,674 and there is no pledged securities under repurchase agreements as at the reporting date (31 December 2012: TL 7,973 and TL 199 respectively).

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**9. LOANS AND ADVANCES TO CUSTOMERS**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Short-term and current portion of long term loans	2,300,871	1,686,517
Long-term loans	6,752,570	5,130,298
<b>Total performing loans</b>	<b>9,053,441</b>	<b>6,816,815</b>
Non-performing loans	37,386	22,292
<b>Total loans</b>	<b>9,090,827</b>	<b>6,839,107</b>
Less: Specific reserve for impairment losses on loans	(5,466)	(11,495)
Less: Portfolio reserve for impairment losses on loans	(24,939)	(20,182)
<b>Total loans</b>	<b>9,060,422</b>	<b>6,807,430</b>

Movements in the reserve for impairment losses on loans for the year ended 2013 and 2012 are as follows:

	<b>1 January – 31 December 2013</b>	<b>1 January – 31 December 2012</b>
Specific reserve for cash loans:		
As at 1 January	11,495	12,215
Charge for the year	145	6,733
Reserve released and write offs	(6,174)	(7,453)
<b>As at 31 December</b>	<b>5,466</b>	<b>11,495</b>
Portfolio reserve for cash loans:		
As at 1 January	20,182	28,523
Charge for the year	4,757	-
Reserve released and write offs	-	(8,341)
<b>As at 31 December</b>	<b>24,939</b>	<b>20,182</b>
<b>Total reserve for impairment losses on loans</b>	<b>30,405</b>	<b>40,738</b>

Loans can be further analysed by customer groups as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Sector</b>		
Corporate customers	7,328,783	5,180,202
Small business	1,707,912	1,623,546
Other	54,132	35,359
	<b>9,090,827</b>	<b>6,839,107</b>

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**9. LOANS AND ADVANCES TO CUSTOMERS (continued)**

	31 December 2013	31 December 2012
<b>Currency</b>		
Euro	2,587,944	2,016,258
US Dollar	4,290,952	3,115,863
Foreign currency indexed TL loans	1,619,009	1,454,813
Turkish Lira	592,922	252,173
<b>Total</b>	<b>9,090,827</b>	<b>6,839,107</b>

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:

<b>Sector</b>	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Loans</b>	<b>Non-performing</b>	<b>Loans</b>	<b>Non-performing</b>
Energy	3,542,040	17,238	2,570,751	-
Finance	1,377,441	-	1,121,775	190
Metal	569,354	48	294,612	605
Chemical	301,881	-	208,334	-
Tourism	271,556	-	209,010	-
Cement	226,120	59	167,730	-
Plastics	172,011	-	105,251	-
Food and Beverages	122,360	7,126	128,689	7,676
Construction	106,353	517	254,130	514
Motor Vehicles	83,468	-	117,433	-
Textile	75,532	1,976	95,729	1,974
Pulp and Paper	72,772	22	110,960	407
Health Services	69,401	5,365	33,706	5,317
Rubber and Tires	14,897	-	-	-
Education	13,819	-	12,418	-
Ceramics	13,171	-	99,250	-
Machinery Production	5,564	282	5,476	279
Lumber and Wood	5,412	-	11,304	-
Farming	5,307	3,430	12,024	3,423
Shipyard	-	-	51,531	-
Other	2,004,982	1,323	1,206,702	1,907
<b>Total</b>	<b>9,053,441</b>	<b>37,386</b>	<b>6,816,815</b>	<b>22,292</b>

TL 290,027 of the cash loans are extended to related parties. Related parties have TL 117,675 non-cash loan risk as at the reporting date (31 December 2012: TL 235,062 and TL 117,825; respectively).

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**9. LOANS AND ADVANCES TO CUSTOMERS (continued)**

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

	31 December 2013	31 December 2012
Euro	0.74-4.11%	1.04-5.15%
US Dollar	3.40-4.60%	2.50-8.75%
TL	7.50-12.54%	6.60-12.00%

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

	31 December 2013	31 December 2012
Euro	2.00-7.64%	2.07-7.57%
US Dollar	2.05-7.60%	2.05-9.93%
TL	7.45-15.50%	9.02-18.50%

The collaterals for the loans extended to the related parties are TL 57,003 as at the reporting date (31 December 2012: TL 21,948).

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

	31 December 2013	31 December 2012
Lease payments receivable	4,573	9,758
(Less): Unearned income	(55)	(326)
<b>Finance lease receivables</b>	<b>4,518</b>	<b>9,432</b>
Current maturity – net	4,518	5,829
Long - term portion – net	-	3,603
<b>Finance lease receivables</b>	<b>4,518</b>	<b>9,432</b>

For the year ended 31 December 2013, currency components of finance lease receivables are as follows (amounts in thousands and original currencies):

	TL	Euro	JPY	US Dollar
2014	-	1,546	-	-
	-	1,546	-	-

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

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**9. LOANS AND ADVANCES TO CUSTOMERS (continued)**

Set out below is an analysis of loans as at 31 December 2013 by customer groups and impairment:

	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Portfolio Reserve</b>	<b>Total</b>
Neither past due nor impaired	7,316,431	1,684,011	52,999	-	9,053,441
Past due not impaired	-	-	-	-	-
Individually impaired	12,352	23,901	1,133	-	37,386
<b>Total gross</b>	<b>7,328,783</b>	<b>1,707,912</b>	<b>54,132</b>	<b>-</b>	<b>9,090,827</b>
Less: reserve for individually impaired loans	(3,950)	(797)	(719)	-	(5,466)
Less: reserve for collectively impaired loans	-	-	-	(24,939)	(24,939)
<b>Total reserve for impairment</b>	<b>(3,950)</b>	<b>(797)</b>	<b>(719)</b>	<b>(24,939)</b>	<b>(30,405)</b>
<b>Total, net</b>	<b>7,324,833</b>	<b>1,707,115</b>	<b>53,413</b>	<b>(24,939)</b>	<b>9,060,422</b>

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

	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Portfolio Reserve</b>	<b>Total</b>
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
<b>Total gross</b>	<b>5,180,202</b>	<b>1,623,546</b>	<b>35,359</b>	<b>-</b>	<b>6,839,107</b>
Less: reserve for individually impaired loans	(9,339)	(720)	(1,436)	-	(11,495)
Less: reserve for collectively impaired loans	-	-	-	(20,182)	(20,182)
<b>Total reserve for impairment</b>	<b>(9,339)</b>	<b>(720)</b>	<b>(1,436)</b>	<b>(20,182)</b>	<b>(31,677)</b>
<b>Total, net</b>	<b>5,170,863</b>	<b>1,622,826</b>	<b>33,923</b>	<b>(20,182)</b>	<b>6,807,430</b>

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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:

	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Total</b>
At 1 January 2013	9,339	720	1,436	11,495
Charge for the year	44	101	-	145
Recoveries, releases and write offs	(5,433)	(24)	(717)	(6,174)
<b>At 31 December 2013</b>	<b>3,950</b>	<b>797</b>	<b>719</b>	<b>5,466</b>

  

	<b>Corporate</b>	<b>Small Business</b>	<b>Other</b>	<b>Total</b>
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)
<b>At 31 December 2012</b>	<b>9,339</b>	<b>720</b>	<b>1,436</b>	<b>11,495</b>

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 2013 is TL 35,285 (31 December 2012: TL 18,825).

As at 31 December 2013, there is no past due but not impaired loans. As at 31 December 2012, the aging analysis of past due but not impaired loans per customer groups is as follows:

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

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 Bank has no loans as of 31 December 2013 (31 December 2012: TL 985).

Loans and advances to customers not impaired amounting to TL 7,743,647 have floating interest rates (31 December 2012: TL 6,185,898) and the remaining TL 1,309,794 have fixed interest rates (31 December 2012: TL 630,917).

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**10. INVESTMENT SECURITIES**

**Available for sale investment securities**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Government bonds and treasury bills in TL	1,996,493	2,127,232
Debt securities issued by corporations	592,725	373,706
Eurobonds	332,811	342,798
Equity shares	54,167	41,545
<b>Total</b>	<b>2,976,196</b>	<b>2,885,281</b>

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 1,740,931 as at the reporting date (31 December 2012: TL 1,314,982).

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 2013 and 31 December 2012 are as follows:

	<b>2013 Nominal Value</b>	<b>2013 Carrying Value</b>	<b>2012 Nominal Value</b>	<b>2012 Carrying Value</b>
<b><u>Government Bonds and Treasury Bills:</u></b>				
Central Bank- Open Market Operations	94,581	108,313	256,886	288,634
Clearing House – Blocked Securities	45,850	46,318	39,810	41,893
Central Bank – Foreign Currency Operations				
Guarantee	-	-	95,680	112,253
Central Bank- Interbank Market Guarantee	-	-	13,982	20,582
	<b>140,431</b>	<b>154,631</b>	<b>406,358</b>	<b>463,362</b>

**Held to maturity investment securities**

As of the reporting date, the Group has no investment securities held-to-maturity (31 December 2012: None).



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**10. INVESTMENT SECURITIES (continued)**

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

	Ownership %	31 December 2013	31 December 2012
<b>Investee</b>			
İstanbul Takas ve Saklama AŞ	6.80	32,030	13,849
İş B Tipi Yatırım Ortaklığı AŞ	6.95	10,828	15,479
İş Portföy Yönetimi AŞ	9.9	4,217	4,217
European Investment Fund	0.17	2,957	2,957
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ (*)	10	1,235	1,235
Cam Elyaf Sanayi AŞ	0.71	618	618
TSKB Gayrimenkul Değerleme AŞ (*)	99.99	379	379
Borsa İstanbul A.Ş.	1	372	-
TSKB Gayrimenkul Danışmanlık AŞ (*)	1.08	323	323
Terme Metal San. Ve Tic. AŞ (*)	17.83	291	291
Sürdürülebilir Danışmanlık AŞ (*)	96	230	230
Aksa Enerji Üretim AŞ	<1.00	-	1,292
Others	<1.00	687	675
<b>Total equity shares in available for sale investments</b>		<b>54,167</b>	<b>41,545</b>

(\*) 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.

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**11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES**

As at 31 December 2013 and 2012, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2013
<b>Investee</b>			
İş Finansal Kiralama AŞ	28.59	121,332	162,817
İş Faktoring AŞ	21.75	8,700	30,644
İş Girişim Serm. Yat. Ort. AŞ	16.67	11,109	41,527
		<b>141,141</b>	<b>234,988</b>

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

The Group's share of profit in its equity-accounted investees for the year 31 December 2013 was TL 31,975 (31 December 2012: TL 20,271). In 2013 the Group has received dividends of TL 21,919 from its investments in equity-accounted investees (31 December 2012: TL 15,540).

The Group's equity-accounted investees are listed on Borsa Istanbul, except for İş Faktoring AŞ. Based on their closing prices of TL 0.95 of İş Finansal Kiralama AŞ and TL 2.59 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment in listed entities is TL 144,038 (31 December 2012: 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 138,174).

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

31 December 2013	Total assets	Equity	Current Period Profit	Fair value
İş Finansal Kiralama AŞ	3,492,581	603,638	39,589	115,266
İş Faktoring AŞ	971,615	69,461	11,944	-
İş Girişim Serm. Yat. Ort. AŞ	420,681	268,703	68,664	28,772
	<b>4,884,877</b>	<b>941,802</b>	<b>120,197</b>	<b>144,038</b>

31 December 2012	Total assets	Equity	Current Period Profit	Fair value
İş Finansal Kiralama AŞ	2,820,322	565,798	40,805	113,444
İş Faktoring AŞ	1,041,260	59,723	4,574	-
İş Girişim Serm. Yat. Ort. AŞ	232,587	204,415	34,245	24,730
	<b>4,094,169</b>	<b>829,936</b>	<b>79,624</b>	<b>138,174</b>

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**12. GOODWILL**

**Cost**

Balance at 1 January 2012	383
Balance at 31 December 2012	383
Balance at 31 December 2013	<u>383</u>

**Impairment**

At 1 January 2012	-
At 31 December 2012	-
At 31 December 2013	<u>-</u>

**Carrying Amount**

Balance at 1 January 2012	383
Balance at 31 December 2012	383
Balance at 31 December 2013	<u>383</u>

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 2013, 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	Leaschold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	Total
<b>Acquisition Cost</b>							
Balance at 1 January 2013	1,335	5,123	41,847	8,514	1,317	9,643	67,779
Additions	156	1,386	44	460	285	1,213	3,544
Disposals	(152)	(963)	(167)	(758)	(182)	(14)	(2,236)
<b>Balance at 31 December 2013</b>	<b>1,339</b>	<b>5,546</b>	<b>41,724</b>	<b>8,216</b>	<b>1,420</b>	<b>10,842</b>	<b>69,087</b>
<b>Accumulated Depreciation</b>							
Balance at 1 January 2013	(475)	(4,448)	(23,185)	(6,454)	(907)	(8,349)	(43,818)
Charge for the year	-	(396)	(812)	(704)	(223)	(468)	(2,603)
Impairment during the year	(20)	-	-	-	-	-	(20)
Disposals	-	963	5	756	182	15	1,921
<b>Balance at 31 December 2013</b>	<b>(495)</b>	<b>(3,881)</b>	<b>(23,992)</b>	<b>(6,403)</b>	<b>(948)</b>	<b>(8,801)</b>	<b>(44,520)</b>
<b>Net Book Value at 31 December 2013</b>	<b>844</b>	<b>1,665</b>	<b>17,732</b>	<b>1,813</b>	<b>472</b>	<b>2,040</b>	<b>24,567</b>

At 31 December 2013, the net carrying amount of leased property and equipment is TL 147.

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**13. PROPERTY AND EQUIPMENT (continued)**

	Land	Leasehold Improvements	Buildings	Equipment	Vehicles	Fixture	Total
<b>Acquisition Cost</b>							
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)
<b>Balance at 31 December 2012</b>	<b>1,335</b>	<b>5,123</b>	<b>41,847</b>	<b>8,514</b>	<b>1,317</b>	<b>9,643</b>	<b>67,779</b>
<b>Accumulated Depreciation</b>							
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
<b>Balance at 31 December 2012</b>	<b>(475)</b>	<b>(4,448)</b>	<b>(23,185)</b>	<b>(6,454)</b>	<b>(907)</b>	<b>(8,349)</b>	<b>(43,818)</b>
<b>Net Book Value at 31 December 2012</b>	<b>860</b>	<b>675</b>	<b>18,662</b>	<b>2,060</b>	<b>410</b>	<b>1,294</b>	<b>23,961</b>

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

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**14. INVESTMENT PROPERTY**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Fair value of investment properties	222,295	240,370
	<b>222,295</b>	<b>240,370</b>

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 2013 by companies listed on CMB's List of Real Estate Appraisal Companies as TL 28,775, TL 14,320 and TL 179,200. TL (31,351) of fair value difference is recognized under other operating income or expense in the accompanying consolidated financial statements (31 December 2012: TL 240,370 net book value, TL 3,228 fair value difference).

The total external rent income earned by the Group from its investment properties is TL 7,648 in the current period (31 December 2012: TL 9,518). 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 2013 and 31 December 2012 are as follows:

<b>Current Period</b>	<b>Closing Balance of Prior Period</b>	<b>Additions</b>	<b>Disposals</b>	<b>Change in Fair Value</b>	<b>Closing Balance of Current Period</b>
Tahir Han	10,100	-	-	4,220	14,320
Pendorya Mall	211,620	620	(21)	(33,019)	179,200
Adana Hotel Project	18,650	13,063	(386)	(2,552)	28,775
<b>Total</b>	<b>240,370</b>	<b>13,683</b>	<b>(407)</b>	<b>(31,351)</b>	<b>222,295</b>

<b>Prior Period</b>	<b>Closing Balance of Prior Period</b>	<b>Additions</b>	<b>Disposals</b>	<b>Change in Fair Value</b>	<b>Closing Balance of Current Period</b>
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
<b>Total</b>	<b>226,805</b>	<b>11,130</b>	<b>(793)</b>	<b>3,228</b>	<b>240,370</b>

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**14. INVESTMENT PROPERTY (Continued)**

**Fair value measurement**

The Company's investment properties are valued annually by an independent real estate appraisal company. The fair value of investment properties are within the scope of level 3 according to valuation techniques. Reconciliation of Level 3 is given at the following table:

	<b>1 January – 31 December 2013</b>	<b>1 January – 31 December 2012</b>
Balance 1 January	240,370	226,805
Addition	13,683	11,131
Disposal	(407)	(794)
<b>Recognized in other income from other operations</b>		
Change in fair value	4,220	4,189
<b>Recognized in other expense from other operations</b>		
Change in fair value	(35,571)	(961)
<b>Total</b>	<b>222,295</b>	<b>240,370</b>

**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.

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b><u>Acquisition cost</u></b>		
Balance at 1 January	4,538	4,030
Additions	630	508
<b>Balance at 31 December</b>	<b>5,168</b>	<b>4,538</b>
<b><u>Accumulated amortisation</u></b>		
Balance at 1 January	(3,522)	(3,160)
Charge for the year	(401)	(362)
<b>Balance at 31 December</b>	<b>(3,923)</b>	<b>(3,522)</b>
<b>Net Book Value, as at 31 December</b>	<b>1,245</b>	<b>1,016</b>

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**16. OTHER ASSETS**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Prepaid expenses	18,366	14,144
Cash guarantees given	45,446	12,627
VAT carried forward	10,381	12,129
Trade receivables	989	1,338
Prepaid taxes	161	3,232
Receivables from brokerage customers	-	6,182
Other	5,403	3,597
<b>Total</b>	<b>80,746</b>	<b>53,249</b>

**17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS**

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

	<b>2013 Carrying Value of Underlying Securities</b>	<b>2013 Carrying Value of Corresponding Liability</b>	<b>2013 Repurchase Value</b>
Available for sale investment securities	1,740,931	1,604,891	1,606,107
	<b>1,740,931</b>	<b>1,604,891</b>	<b>1,606,107</b>

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

The repurchase agreements have maturity periods between two days to fourteen weeks. The Group has applied interest rates of 0.25%-1.35% for foreign currency, 4.50%-7.07% for Turkish Lira agreements (31 December 2012: 0.31%-1.25% for foreign currency, 5.01%-6.50% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 605 (2012: TL 873).



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**18. FUNDS BORROWED**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Short-term funds	670,990	413,484
Short-term portion of medium and long-term funds	730,699	503,204
Medium and long-term funds	7,723,348	6,112,917
<b>Total</b>	<b>9,125,037</b>	<b>7,029,605</b>
	<b>31 December 2013</b>	<b>31 December 2012</b>
Foreign currencies	9,050,762	6,886,786
Turkish Lira	74,275	142,819
<b>Total</b>	<b>9,125,037</b>	<b>7,029,605</b>

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**18. FUNDS BORROWED (continued)**

**31 December 2013**

	<u>Amount</u>	<u>Maturity</u> <u>(Min-Max)</u>	<u>Interest</u> <u>Rate (%)</u> <u>(Min-Max)</u>
<b><u>Foreign Currency Borrowings</u></b>			
International Bank for Reconstruction and Development (IBRD)			
-Export Finance Intermediation Loan (EFIL) II	419,239	15.01.2020	0.65
-Export Finance Intermediation Loan (EFIL) III	497,750	15.01.2021	0.52-0.65
-Export Finance Intermediation Loan (EFIL) IV	1,248,065	15.07.2036-15.12.2038	0.32-0.84
-IBRD-Renewable Energy Loan (REL)	1,469,634	15.03.2017-15.06.2039	0.34-0.84
-IBRD-Small Medium Enterprises (SME)	208,410	15.03.2021	0.34-0.43
	<b>3,843,098</b>		
European Investment Bank (EIB)	2,518,502	15.03.2014-14.06.2027	0.39-3.59
Council of European Development Bank (CEB)	617,227	15.10.2014-15.11.2021	0.59-1.31
Kreditanstalt Für Wiederaufbau (KfW)(*)	590,155	30.11.2014-30.12.2032	0.29-3.05
Association of French Development (AFD)	301,794	31.01.2017-31.07.2021	0.25-0.74
Syndicated Loan(**)	296,350	08.07.2014	1.04-1.11
European Bank for Reconstruction and Development (EBRD)	147,702	18.01.2017-18.07.2017	2.33
Intesa Trade Facility	44,054	20.01.2014-03.04.2014	1.43-1.64
Domestic bank borrowings	259,446	02.01.2014-29.08.2024	0.30-6.35
Foreign bank borrowings	13,780	02.01.2014	0.45
International Finance Corporation	201,666	15.12.2018-15.12.2019	3.2-3.35
Islam Development Bank (IDB)(***)	216,988	19.02.2023	2.72
	<b>5,207,664</b>		
<b>Total foreign currency borrowings</b>	<b>9,050,762</b>		
<b><u>Turkish Lira Borrowings</u></b>			
Domestic bank borrowings	74,275	02.01.2014-21.02.2014	8.50-10.40
<b>Total Turkish Lira borrowings</b>	<b>74,275</b>		
<b>Total</b>	<b>9,125,037</b>		

(\*) On 4 December 2012, in Ankara, the Bank has signed a loan agreement with Kreditanstalt für Wiederaufbau (KfW) for amounting to USD 125 million under the Treasury guarantee. According to the agreement, USD 75 million has been withdrawn during 2013.

(\*\*) Within the framework of the decisions taken by the Board of Directors of the Bank, on 3 July, 2013 in Istanbul, the Bank has used a syndicated loan from international markets in two tranches amounting to USD 15 million and Euro 90 million with maturity 8 July 2014 under the coordination of Commerzbank Aktiengesellschaft.

(\*\*\*) On 4 December 2012, in Ankara, The Agreement of the Restricted Mudaraba financing possibility that provided from Islamic Development Bank has signed with amounting to USD 100 million under the Treasury guarantee for the financing of renewable energy and energy efficiency project that will be held in Turkey.

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**18. FUNDS BORROWED (continued)**

<b>31 December 2012</b>			
	<b><u>Amount</u></b>	<b><u>Maturity (Min-Max)</u></b>	<b><u>Interest Rate (%) (Min-Max)</u></b>
<b><u>Foreign Currency Borrowings</u></b>			
International Bank for Reconstruction and Development (IBRD)			
-Export Finance Intermediation Loan (EFIL) II	404,049	15.01.2020	0.98
-Export Finance Intermediation Loan (EFIL) III	464,054	15.01.2021	0.96-0.98
-Export Finance Intermediation Loan (EFIL) IV	922,594	15.07.2036-15.12.2038	0.76-0.98
-IBRD-Renewable Energy Loan (REL)	1,165,898	15.03.2017-15.06.2039	0.48-0.98
-IBRD-Small Medium Enterprises (SME)	191,723	15.03.2021	0.48-0.73
	<b><u>3,148,318</u></b>		
European Investment Bank (EIB)	2,128,927	15.04.2013-14.06.2027	0.33-3.59
Council of European Development Bank (CEB)	513,945	15.10.2014-15.11.2021	0.67-1.51
Kreditanstalt Für Wiederaufbau (KfW)	367,733	31.05.2013-30.12.2032	0.34-2.89
Association of French Development (AFD)	270,144	31.01.2017-31.07.2021	0.25-1.08
Syndicated Loan	179,803	04.07.2013	1.73-1.93
European Bank for Reconstruction and Development (EBRD)	118,226	18.01.2017-18.07.2017	2.76-2.94
Instituto de Credito Oficial	422	17.04.2013	4.00
Intesa Trade Facility	11,669	17.06.2013	1.62
Domestic bank borrowings	78,936	02.02.2013-29.08.2024	0.35-6.51
International Finance Corporation	44,285	15.12.2018	4.01
Cash borrowings through promissory notes	24,378	11.07.2013-12.07.2013	3.90-3.97
	<b><u>3,738,468</u></b>		
<b>Total foreign currency borrowings</b>	<b><u>6,886,786</u></b>		
<b><u>Turkish Lira Borrowings</u></b>			
Domestic bank borrowings	142,819	01.01.2013-11.01.2013	0.35-7.10
<b>Total Turkish Lira borrowings</b>	<b><u>142,819</u></b>		
<b>Total</b>	<b><u>7,029,605</u></b>		

**19. DEBT SECURITIES ISSUED**

In the current year, there is no debt securities issued (31 December 2012: None).

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**20. OTHER LIABILITIES**

	31 December 2013	31 December 2012
Unearned revenue	58,669	57,481
Payables to clearing accounts	16,524	12,406
Deposits and advances taken for imports	1,696	1,945
Cash guarantees	137	10,128
Payment orders	-	21,217
Other	6,139	3,417
<b>Total</b>	<b>83,165</b>	<b>106,594</b>

**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 2013 (31 December 2012: 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 2013 is 20% (31 December 2012: 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 2013 (31 December 2012: 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 2012: 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:**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Corporate tax provision	58,256	94,286
Corporate tax paid in advance	(40,119)	(64,596)
<b>Corporate tax liability</b>	<b>18,137</b>	<b>29,690</b>

**b) Statement of Profit or Loss:**

	<b>31 December 2013</b>	<b>31 December 2012</b>
Corporate tax expense	58,256	94,286
Deferred tax (income) / expense	16,287	(19,060)
	<b>74,543</b>	<b>75,226</b>

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

	<b>31 December 2013</b>	<b>31 December 2012</b>
Loan commissions	11,771	11,496
Impairment losses on loans	6,081	6,335
Accruals on derivative financial instruments	3,597	-
Reserve for employee severance indemnity and unused vacation provision	1,712	1,778
Valuation of marketable securities	96	119
Others	459	693
<b>Total deferred tax asset</b>	<b>23,716</b>	<b>20,421</b>
Valuation of marketable securities	(5,510)	(14,703)
Borrowing commissions	(3,111)	(2,395)
Accruals on derivative financial instruments	-	(2,004)
Useful life differences on property and equipment	(118)	(40)
<b>Total deferred tax liability</b>	<b>(8,739)</b>	<b>(19,142)</b>

Reflected as:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Deferred tax assets	23,716	20,421
Deferred tax liabilities	(8,739)	(19,142)
<b>Total deferred tax assets, net</b>	<b>14,977</b>	<b>1,279</b>

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**21. TAXATION (continued)**

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

	31 December 2013	31 December 2012
<b>Reconciliation of Taxation</b>		
Income before taxation	408,734	431,092
Tax at the statutory income tax rate of 20%	(81,747)	(86,218)
Tax effect of income that is deductible in determining taxable income	3,155	10,725
Tax effect of undeductable expenses	(4,276)	(4,603)
Tax effect of dividend income	5,684	4,870
Tax effect of other deductions	1,641	-
<b>Income tax expense</b>	<b>(74,543)</b>	<b>(75,226)</b>

Movements in temporary differences for the years ended 31 December 2013 and 2012 are as follows:

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
<b>2013</b>				
Loan commissions	11,496	275	-	11,771
Impairment losses on loans	6,335	(254)	-	6,081
Reserve for employee severance indemnity and unused vacation provision	1,778	29	(95)	1,712
Valuation of marketable securities	(14,584)	(20,910)	30,080	(5,414)
Useful life differences on property and equipment	(40)	(78)	-	(118)
Borrowing commissions	(2,395)	(716)	-	(3,111)
Accruals on derivative financial instruments	(2,004)	5,601	-	3,597
Other	693	(234)	-	459
<b>Net deferred tax asset / (liability)</b>	<b>1,279</b>	<b>(16,287)</b>	<b>29,985</b>	<b>14,977</b>

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
<b>2012</b>				
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
<b>Net deferred tax asset / (liability)</b>	<b>10,282</b>	<b>19,060</b>	<b>(28,063)</b>	<b>1,279</b>

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**22. EMPLOYEE BENEFITS**

	<b>2013</b>	<b>2012</b>
<b><u>Movement of reserve for employee severance indemnity</u></b>		
Balance at 1 January	7,769	4,752
Interest cost	607	463
Service cost	622	684
Loss/(Gain) due to Settlements / Reductions / Terminations	139	(373)
Payment during the year	(1,388)	(1,029)
Actuarial difference	(627)	3,272
<b>Balance at 31 December</b>	<b>7,122</b>	<b>7,769</b>
<b><u>Movement of provision for unused vacations</u></b>		
Balance at 1 January	1,217	1,107
Provision for the year	337	110
<b>Balance at 31 December</b>	<b>1,554</b>	<b>1,217</b>
<b><u>Movement of provision for bonus payments</u></b>		
Balance at 1 January	6,248	5,720
Provision for the year	6,596	6,248
Bonus paid	(6,586)	(5,870)
Income and expenses of the prior period	338	150
<b>Balance at 31 December</b>	<b>6,596</b>	<b>6,248</b>
<b>Employee benefits</b>	<b>15,272</b>	<b>15,234</b>

**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 2013, 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 3,254 as at 31 December 2013 (31 December 2012: full TL 3,129) 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.



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**22. EMPLOYEE BENEFITS (continued)**

**b) Reserve for employee severance indemnity**

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

	2013	2012
Interest rate	11.10%	7.80%
Expected rate of increase in salaries and eligible ceiling	7.40%	6.16%
Discount rate	3.44%	1.54%

**23. SUBORDINATED LOAN**

The Bank has used a subordinated loan amounting to US Dollar 50,000. As at 31 December 2013, carrying value of subordinated loan is TL 106,759 (31 December 2012: TL 89,125).

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 + 3.00%; which corresponds to 3.36% 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 2013, the authorized and issued capital consists of 1,300,000,000 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 2013	%	Authorized Capital	Paid-In Capital
<b><u>Shareholders</u></b>			
T. İş Bankası AŞ	50.00	650,001	650,001
T. Vakıflar Bankası T.A.O.	8.38	108,907	108,907
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.62	541,092	541,092
	<b>100.00</b>	<b>1,300,000</b>	<b>1,300,000</b>

**Components of Capital:**

Nominal capital	1,300,000	1,300,000
Effect of inflation	13,563	13,563
	<b>1,313,563</b>	<b>1,313,563</b>

31 December 2012	%	Authorized Capital	Paid-In Capital
<b><u>Shareholders</u></b>			
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
	<b>100.00</b>	<b>1,100,000</b>	<b>1,100,000</b>

**Components of Capital:**

Nominal capital	1,100,000	1,100,000
Effect of inflation	13,563	13,563
	<b>1,113,563</b>	<b>1,113,563</b>

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**24. CAPITAL AND RESERVES (continued)**

In the meeting of the General Assembly held on 26 March 2013, it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 1.100.000 to TL 1.300.000 by TL 200.000. In respect of the resolution of the General Assembly, TL 168.000 of this increase will be incorporated from the profit of the year 2012; TL 32.000 of this increase will be incorporated from extraordinary reserves. The increase in paid-in capital was approved by the BRSA on 3 May 2013, and has been published in the Turkish Trade Registry Gazette No: 8351 on 27 June 2013.

In the prior period, 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.

**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 2013, it was decided to distribute a dividend of TL 60,000 to shareholders and TL 7,296 to personnel, members of Board of Directors and to allocate TL 33,392 to legal reserves from retained earnings.

**Non-controlling interests**

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

	31 December 2013	31 December 2012
Capital	56,902	56,902
Share premium	205	205
Fair value reserve	2	15
Legal reserve	110	100
Retained earnings	27,005	18,859
Current period net income	(8,739)	8,146
	<b>75,485</b>	<b>84,227</b>

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**25. OTHER OPERATING INCOME**

	<b>1 January- 31 December 2013</b>	<b>1 January- 31 December 2012</b>
Rent income	7,648	9,518
Provisions released	6,029	9,061
Increase in value of investment properties	4,220	3,228
Gain on sale of assets	854	2,962
Other	4,030	4,505
	<b>22,781</b>	<b>29,274</b>

**26. DIVIDEND INCOME**

	<b>1 January- 31 December 2013</b>	<b>1 January- 31 December 2012</b>
Available-for-sale securities	109	2,173
Trading securities	8,912	407
Other	6,694	3,434
	<b>15,715</b>	<b>6,014</b>

**27. OTHER OPERATING EXPENSES**

	<b>1 January- 31 December 2013</b>	<b>1 January- 31 December 2012</b>
Personnel expenses	66,526	63,218
Depreciation, impairment and amortisation	38,562	2,840
Other administrative expenses	23,960	21,494
Marketing expenses	1,469	1,372
Taxes and dues other than on income	834	1,292
Other	9,255	9,836
	<b>140,606</b>	<b>100,052</b>

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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)**

<b>CONSOLIDATED INCOME STATEMENT</b>		<b>Banking</b>		<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
<b>(1 January – 31 December 2013)</b>							
Interest income		637,646		26,086	663,732	(6,242)	657,490
Interest expense		(151,309)		(30,835)	(182,144)	6,242	(175,902)
<b>Net interest income</b>		<b>486,337</b>		<b>(4,749)</b>	<b>481,588</b>	<b>-</b>	<b>481,588</b>
Net fee and commission income		10,705		17,162	27,867	-	27,867
Net securities trading income / (loss)		3,625		766	4,391	-	4,391
Net derivative trading income / (loss)		(8,554)		(37,805)	(46,359)	-	(46,359)
Net foreign currency gains / (losses)		(7,911)		25,144	17,233	-	17,233
Impairment losses on loans and advances to customers, net		(5,578)		(273)	(5,851)	-	(5,851)
<b>Net operating income after impairment losses</b>		<b>478,624</b>		<b>245</b>	<b>478,869</b>	<b>-</b>	<b>478,869</b>
Other operating income		5,045		49,756	54,801	(32,020)	22,781
Other operating expenses		(73,195)		(73,357)	(146,552)	5,946	(140,606)
Dividend income		30,315		2,180	32,495	(16,780)	15,715
Share of profit of equity-accounted investees		31,975		-	31,975	-	31,975
<b>Profit before income tax</b>		<b>472,764</b>		<b>(21,176)</b>	<b>451,588</b>	<b>(42,854)</b>	<b>408,734</b>

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**28. SEGMENT REPORTING (continued)**

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

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**28. SEGMENT REPORTING (continued)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION		Banking	Stock brokerage and other	Combined	Eliminations	Total
<b>At 31 December 2013</b>						
<b>Total assets</b>		12,963,171	861,144	13,824,315	(381,854)	13,442,461
<b>Total liabilities</b>		10,872,142	579,331	11,451,473	(176,383)	11,275,090
Equity before net profit & non-controlling interests		1,724,437	303,335	2,027,772	(278,816)	1,748,956
Net profit attributable to equity holders of the Bank		366,592	(21,522)	345,070	(2,140)	342,930
Non-controlling interests		-	-	-	75,485	75,485
<b>Total equity</b>		2,091,029	281,813	2,372,842	(205,471)	2,167,371
<b>Total liabilities and equity</b>		12,963,171	861,144	13,824,315	(381,854)	13,442,461
<b>At 31 December 2012</b>						
<b>Total assets</b>		10,310,691	816,152	11,126,843	(289,718)	10,837,125
<b>Total liabilities</b>		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
<b>Total equity</b>		1,913,892	303,467	2,217,359	(187,559)	2,029,800
<b>Total liabilities and equity</b>		10,310,691	816,152	11,126,843	(289,718)	10,837,125

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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 2013	31 December 2012
<b><u>Balances with related parties</u></b>		
Loans and advances to customers	177,187	235,062
Non-cash loans	117,675	117,825
Loans and advances to banks	113,975	1,039
Available for sale investment securities	50,970	7,916
Other liabilities	21	2,188

	1 January- 31 December 2013	1 January- 31 December 2012
<b><u>Transactions with related parties</u></b>		
Interest income	3,205	5,573
Interest expense	-	(2)
Dividend income	6,817	5,222
Income from associates	21,271	20,924
Foreign exchange gain (loss), net	19,600	10,935
Net fee and commission income / (expense), net	115	(548)
Other income	738	172

**Compensation of Key Management Personnel of the Group**

Benefits provided to key management personnel in the current period amount to TL 10,016 (31 December 2012: TL 8,702).

**30. COMMITMENTS AND CONTINGENCIES**

	31 December 2013	31 December 2012
Swap and forward agreements	4,358,819	2,827,823
Revocable and irrevocable commitments	3,314,691	2,801,714
Letters of guarantee	1,015,387	635,768
Option agreements	804,760	150,889
Letters of credit	438,033	572,564
Other commitments	-	4,225
	<b>9,931,690</b>	<b>6,992,983</b>



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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 2013, the Group manages 8 mutual funds (2012: 5) 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 3,319,792 as at 31 December 2013 (31 December 2012: TL 3,522,323). As at 31 December 2013, securities at custody with market value amounted to TL 2,659,676 (31 December 2012: TL 2,316,350).

**Securites Blocked and Letters of Guarantee Given to Borsa Istanbul A.Ş. (BIST) as Collateral for Trading on Markets**

As at 31 December 2013, according to the general requirements of the BIST, letters of guarantee amounting to TL 24,409 (31 December 2012: TL 19,844) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 31 December 2013 there is TL 2,102 letters of guarantee were given to the Capital Markets Board (31 December 2012: 2,102).

The Group's trading securities given as collateral or blocked amounted to TL 8,674 at the reporting date (31 December 2012: TL 7,973).

**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 22 legal cases against the Group which are amounting to TL 855 as of the reporting date (31 December 2012: TL 964, 29 legal cases).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (Foundation) established in accordance with the decisions of Turkish Commercial Law and Civil Law as made to all Foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of Foundation worked at the time of payment, the amount Foundation members are obliged to pay shouldn't deduct from the basis of fee, accordingly tax audit report organized with a claim that it should be taken penalized income tax stoppage / penalized stump duty deducted from allowance and as of reporting date total amount of TL 17,325 tax and tax penalty notice relating to period in question to the Bank relying on this report. The Bank assesses that the Bank's practice is in compliance with the legislation and there is no legal basis for the tax administration's suspended assessments, therefore, there is no need for provision. The Bank has used the legal rights for that assessment. No provision has been provided as of the reporting date.

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**30. COMMITMENTS AND CONTINGENCIES (continued)**

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 Municipality. 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. The request about revision of decision relating to decision of approval has been disallowed by the Council of State on 24 April 2013 and domestic remedies about the lawsuit are exhausted.

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. The Council of State also approved the resolution of the Court on 29 May 2013. The request adjustment about decision of approval is presented to the Court on 5 November 2013 and answer of petition has been waited.

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 is located, has become effective. According to the New 1/5000 scaled Zoning Plan, the related real estate's function 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 the Istanbul Metropolitan Municipality ("İBB"), the Pendorya Mall's both construction licence and occupancy permit renewal application will be made. The new 1/5000 scaled Zoning Plan was approved by the Assembly of İBB on 12 April 2013 and entered into force was approved by the Presidency on 31 August 2013. Currently, Implementation Plan which is proper for new 1/5000 plan of 1/1000 scale has been expected to be prepared by subsequent to its approval of Pendik Municipality. Following the approval of the Country Council about the plans, the plans will be submitted to the Assembly of İBB.

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, TSKB GYO management does not expect a conclusion that affects financial statements significantly, therefore the accompanying financial statements do not include probable effects of these lawsuits.

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**30. COMMITMENTS AND CONTINGENCIES (continued)**

Plaintiff ultimately filed a lawsuit against IBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as intervening party.

Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. IBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from "Possessory Actions" and converted to the "Confiscating without expropriating" by the judge.

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. Following the notification of the decision, the appeal process will start.

**Other**

The Group's 1 head office and 15 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 24 cars are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2012: 1 head office, 14 branches and 30 cars are subject to operational leasing).

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**31. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Currency swaps	6,229	(13,165)	4,518	(356)
Options	22,202	(22,848)	433	(366)
Foreign currency forward contracts	2,796	(11,489)	2,980	(2,729)
Interest rate swaps	9,460	(10,355)	15,312	(17,546)
	<b>40,687</b>	<b>(57,857)</b>	<b>23,243</b>	<b>(20,997)</b>

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, US Dollar and Euro.

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

	<b>31 December</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
Forward foreign exchange contracts – buy	294,481	237,888
Forward foreign exchange contracts – sell	302,823	237,629
Currency swaps – buy	622,897	356,342
Currency swaps – sell	628,598	350,090
Interest rate swaps – buy	1,255,010	822,937
Interest rate swaps – sell	1,255,010	822,937
Currency option – buy	392,786	59,630
Currency option – sell	393,484	60,059
Interest option – buy	9,245	15,600
Interest option – sell	9,245	15,600

**32. DIVIDENDS**

In March 2013, TL 67,296 dividends were paid to shareholders, personnel and member of Board of Directors. In March 2012, the dividends paid were TL 50,479.

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**33. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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:

<b>31 December 2013</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
<b>Trading assets</b>	<b>19,561</b>	<b>19,561</b>	-	-
Government bonds and Treasury bills	8,717	8,717	-	-
Equity shares	988	988	-	-
Mutual funds	209	209	-	-
Debt securities issued by corporations	9,647	9,647	-	-
<b>Derivative assets</b>	<b>40,687</b>	-	<b>40,687</b>	-
<b>Available for sale investment securities</b>	<b>2,976,196</b>	<b>2,125,024</b>	<b>807,834</b>	<b>43,338</b>
Government bonds and Treasury bills	1,996,493	1,996,493	-	-
Eurobonds	332,811	-	332,811	-
Equity shares	54,167	10,829	-	43,338
Debt securities issued by corporations	592,725	117,702	475,023	-
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>57,857</b>	-	<b>57,857</b>	-
<b>31 December 2012</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
<b>Trading assets</b>	<b>17,926</b>	<b>17,926</b>	-	-
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	-	-
<b>Derivative assets</b>	<b>23,243</b>	-	<b>23,243</b>	-
<b>Available for sale investment securities</b>	<b>2,885,281</b>	<b>2,200,145</b>	<b>660,362</b>	<b>24,774</b>
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	-
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>20,997</b>	-	<b>20,997</b>	-

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2013 and 31 December 2012 is as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Balance at the beginning of the year	24,774	23,676
Purchases	18,564	1,098
Redemption or sales	-	-
<b>Closing balance</b>	<b>43,338</b>	<b>24,774</b>

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**33. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

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

<b>31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Total Carrying Amount</b>
<b>Assets</b>					
Interbank money market placements	-	-	50	50	50
Funds lent under repurchase agreements	-	-	-	-	-
Loans and advances to customers	-	9,207,837	-	9,207,837	9,060,422
<b>Liabilities</b>					
Obligation under repurchase agreements	-	-	1,604,891	1,604,891	1,604,891
Funds borrowed and subordinated loans	-	-	9,231,796	9,231,796	9,231,796
Payables to stock exchange money market	-	-	251,313	251,313	251,313
Current account of loan customers	-	-	5,954	5,954	5,954
<b>31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Total Carrying Amount</b>
<b>Assets</b>					
Interbank money market placements	-	-	-	-	-
Funds lent under repurchase agreements	-	-	199	199	199
Loans and advances to customers	-	6,854,480	-	6,854,480	6,807,430
<b>Liabilities</b>					
Obligation under repurchase agreements	-	-	1,235,179	1,235,179	1,235,179
Funds borrowed and subordinated loans	-	-	7,118,730	7,118,730	7,118,730
Payables to stock exchange money market	-	-	267,449	267,449	267,449
Current account of loan customers	-	-	9,745	9,745	9,745

**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.

**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.

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.

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**34. EARNINGS PER SHARE**

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

A summary of the weighted average number of shares outstanding for the year ended 31 December 2013 and 31 December 2012 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	<b>1 January – 31 December 2013</b>	<b>1 January – 31 December 2012</b>
Number of shares outstanding at 1 January	1,100,000,000	800,000,000
<i>New shares issued</i>		
Conversion of existing reserves <sup>(*)</sup>	200,000,000	300,000,000
<b>Number of shares outstanding at the period end</b>	<b>1,300,000,000</b>	<b>1,100,000,000</b>
<b>Weighted average number of shares during the period <sup>(*)</sup></b>	<b>1,300,000,000</b>	<b>1,300,000,000</b>
Net profit (TL)	334,191	355,866
<b>Basic and diluted earnings per share (in full TL)</b>	<b>0.2571</b>	<b>0.2737</b>

<sup>(\*)</sup> 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 27 March 2014, it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 1.300.000 to TL 1.500.000 by TL 200.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2013. The increase in paid-in capital was approved by the BRSA on 16 April 2014.

As of 31 January 2014, the Parent Bank has sold all Takasbank-İstanbul Takas ve Saklama Bankası A.Ş. shares representing 5% of its shares having nominal amount of TL 21.000 to Borsa İstanbul A.Ş. at a price of TL 33.390 and the sale amount was collected within the same day.