TÜRKİYE SINAİ KALKINMA BANKASI A.Ş.

US$350,000,000 5.375% Notes due 2019

Türkiye Sınai Kalkınma Bankası A.Ş., a banking institution organised as a public joint stock company under the laws of Turkey and registered with the İstanbul Trade Registry under number 42527 (the "*Bank*" or the "*Issuer*"), is issuing US$350,000,000 5.375% Notes due 2019 (the "*Notes*"). The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "*Securities Act*"), or any U.S. State securities laws and are being offered for sale only in offshore transactions to non-U.S. persons in reliance upon Regulation S under the Securities Act ("*Regulation S*"). For a description of certain restrictions on the sale and transfer of investments in the Notes, see "Subscription and Sale" herein.

INVESTING IN THE NOTES INVOLVES CERTAIN RISKS. FOR A DISCUSSION OF THESE RISKS, SEE "RISK FACTORS."

The Notes will bear interest from (and including) 27 October 2014 (the "*Issue Date*") to (but excluding) 30 October 2019 (the "*Maturity Date*") at a fixed rate of 5.375% *per annum*. Interest will be payable semi-annually in arrear in equal instalments of US$26.875 per US$1,000 in principal amount of the Notes on the 30th day of each April and October in each year (each an "*Interest Payment Date*") up to (and including) the Maturity Date; *provided* that: (a) if any such date is not a Payment Business Day (as defined in Condition 7), then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay. Principal of the Notes is scheduled to be repaid on the Maturity Date, but may be repaid earlier under certain circumstances described herein, and (b) the amount of interest payable on the first Interest Payment Date will be as described in Condition 6.1 as set out on page 135 of this Prospectus. The Notes initially will be sold to investors at a price equal to 99.926% of the principal amount thereof. For a more detailed description of the Notes, see "Conditions of the Notes."

This Prospectus (this "*Prospectus*") has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC as amended ("*Prospectus Directive*") (including the amendments made by Directive 2010/73/EU). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("*EU*") law pursuant to the Prospectus Directive. Such approval relates only to Notes that are to be admitted to trading on the regulated market of the Irish Stock Exchange (the "*Main Securities Market*") or on another regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments ("*MiFID*") and/or that are to be offered to the public in any member state of the European Economic Area (a "*Member State*"). Application will be made to the Irish Stock Exchange for the Notes to be admitted to its official list (the "*Official List*") and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted. References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market.

Application has been made to the Capital Markets Board of Turkey (the "*CMB*"), in its capacity as competent authority under Law No. 6362 (the "*Capital Markets Law*") of the Republic of Turkey ("*Turkey*") relating to capital markets, for its approval of the issuance and sale of the Notes by the Bank outside of Turkey. The Notes cannot be sold before the necessary approval, the approved issuance certificate (*ihraç belgesi*) and the tranche issuance certificate (*tertip ihraç belgesi*) are obtained from the CMB. The CMB approval and the issuance certificate (*ihraç belgesi*) for the issuance and sale of the Notes were obtained on 24 September 2014, and the tranche issuance certificate (*tertip ihraç belgesi*) representing the CMB's approval of the issuance of the Notes is expected to be obtained from the CMB on or before the Issue Date.

Under current Turkish tax law, withholding tax at the rate of 0% applies to interest on the Notes. See "Taxation - Certain Turkish Tax Considerations."

The Notes are expected to be rated at issuance "Baa3" by Moody's Investors Service Limited ("*Moody's*" and "BBB-" by Fitch Ratings Ltd. ("*Fitch*") and, together with Moody's, the "*Rating Agencies*"). The Bank has also been rated by the Rating Agencies, as set out on page 91 of this Prospectus. As of the date of this Prospectus, each of the Rating Agencies is established in the EU and is registered under Regulation (EU) No 1060/2009, as amended (the "*CRA Regulation*"). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision, reduction or withdrawal at any time by the assigning rating agency.

The Notes are being offered in reliance upon Regulation S by each of Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, ING Bank N.V., London Branch and Standard Chartered Bank (each a "*Joint Lead Manager*" and, collectively, the "*Joint Lead Managers*"), subject to their acceptance and right to reject orders in whole or in part. It is expected that delivery of the Notes will be made in book-entry form only through the facilities of Euroclear Bank SA/NV ("*Euroclear*") and/or Clearstream Banking, *société anonyme* ("*Clearstream, Luxembourg*"), against payment therefor in immediately available funds on the Issue Date.

Joint Lead Managers

Citigroup **Commerzbank** **ING** **Standard Chartered Bank**

The date of this Prospectus is 23 October 2014.

This Prospectus constitutes a prospectus for the purpose of: (a) Article 5 of the Prospectus Directive and (b) giving information with regard to the Bank and the Notes that, according to the particular nature of the Bank and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Bank and of the rights attaching to the Notes.

This Prospectus is to be read in conjunction with the financial statements that form part of and are included herein (or are incorporated by reference herein). See "*Appendix B - BRSA Financial Statements for the Group for the Fiscal Years ended 31 December 2012 and 2013 and the Six Months ended 30 June 2014*" and "*Documents Incorporated by Reference*."

The Bank, having made all reasonable enquiries, confirms that: (a) this Prospectus (including the information incorporated herein by reference) contains all information that in its view is material in the context of the issuance and offering of the Notes (or beneficial interests therein), (b) the information contained in, or incorporated by reference into, this Prospectus is true and accurate in all material respects and is not misleading, (c) any opinions, predictions or intentions expressed in this Prospectus (or any of the documents incorporated herein by reference) on the part of the Bank are honestly held or made by the Bank and are not misleading in any material respects, and there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions, predictions or intentions misleading in any material respect, and (d) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Bank or the Joint Lead Managers to subscribe for or purchase, any Notes (or beneficial interests therein). This Prospectus is intended only to provide information to assist potential investors in deciding whether or not to subscribe for or purchase Notes (or beneficial interests therein) in accordance with the terms and conditions specified by the Joint Lead Managers. The Notes (and beneficial interests therein) may not be offered or sold, directly or indirectly, and this Prospectus may not be circulated, in any jurisdiction except in accordance with legal requirements applicable to such jurisdiction.

Neither this Prospectus nor any other information supplied in connection with the Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Bank or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Notes should invest in the Notes. Each investor contemplating investing in the Notes should: (i) determine for itself the relevance of the information contained in, or incorporated into, this Prospectus, (ii) make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank and (iii) make its own determination of the suitability of any such investment in light of its own circumstances, with particular reference to its own investment objectives and experience, in each case based upon such investigation as it deems necessary.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes (or beneficial interests therein) shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof (or, if such information is stated to be as of an earlier date, subsequent to such earlier date) or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same.

The distribution of this Prospectus and the offer or sale of the Notes (or beneficial interests therein) may be restricted by law in certain jurisdictions. The Bank and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes (or beneficial interests therein) may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank that is intended to permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly: (a) no Notes (or beneficial interests therein) may be offered or sold, directly or indirectly, and (b) neither: (i) this Prospectus nor (ii) any advertisement or other offering material, may be distributed or published in any jurisdiction except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Prospectus or any Notes (or beneficial interests therein) come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus, any advertisement or other offering material and the offering and sale of Notes (or beneficial interests therein). In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, Turkey and the United Kingdom. For a description of certain restrictions on offers, sales and deliveries of the Notes (or beneficial interests therein) and on the distribution of this Prospectus and other offering material relating to the Notes, see "Subscription and Sale."

No person has been authorised by the Bank to give any information or make any representation not contained in or consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank or any of the Joint Lead Managers.

In making an investment decision, investors must rely upon their own examination of the Bank and the terms of the Notes, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the "*SEC*") or any other securities commission or other regulatory authority in the United States and, other than the approvals of the CMB and the Central Bank of Ireland described herein, have not been approved or disapproved by any other securities commission or other regulatory authority in Turkey or any other jurisdiction, nor have the foregoing authorities (other than the Central Bank of Ireland to the extent described herein) approved this Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Prospectus. Any representation to the contrary might be unlawful.

No representation or warranty, express or implied, is made by the Joint Lead Managers as to the accuracy or completeness of the information set forth in this Prospectus, and nothing contained in this Prospectus is, or should be relied upon as, a promise or representation, whether as to the past or the future, by the Joint Lead Managers. None of the Joint Lead Managers assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Bank and its own determination of the suitability of any such investment in light of its own circumstances, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. The Notes may not be suitable investments for all investors. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement,

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular circumstances, an investment in the Notes and the impact such investment will have on its overall investment portfolio,

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments is different from the potential investor's currency,

- understand thoroughly the terms of the Notes and be familiar with the behavior of financial markets in which they participate, and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

None of the Bank, the Joint Lead Managers or any of their respective counsel or other representatives is making any representation to any offeree or purchaser of the Notes (or beneficial interests therein) regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Notes.

GENERAL INFORMATION

In this Prospectus "*Bank*" means Türkiye Sınai Kalkınma Bankası A.Ş. on a stand-alone basis and "*Group*" means the Bank and its consolidated subsidiaries (and, with respect to accounting information, other consolidated entities).

The Bank has obtained the approval of the CMB (dated 24 September 2014 No. 29833736-105.01.02.03-1943 (the "*CMB Approval*"), the approved issuance certificate (*ihraç belgesi*) (dated 24 September 2014 No. 96/BA-923) and the approval of the Banking Regulatory and Supervisory Agency (the "*BRSA*" and the "*BRSA Approval*", respectively) (dated 29 August 2014 and numbered 32521522-101.01[10]-20948) required for the issuance of the Notes. In addition to the CMB Approval, the approved issuance certificate (*ihraç belgesi*) and the BRSA Approval, an approved tranche issuance certificate (*tertip ihraç belgesi*) is also required to be obtained by the Bank from the CMB prior to the Issue Date. Pursuant to the CMB Approval and the BRSA Approval, the offer, sale and issue of the Notes has been authorised and approved in accordance with Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, "*Decree 32*"), the Banking Law No. 5411 (the "*Banking Law*") and its related legislation and the Capital Markets Law and its related legislation, including the CMB's Communiqué II-31.1 on Debt Instruments (the "*Communiqué on Debt Instruments*").

In addition, the Notes (or beneficial interests therein) may only be offered or sold outside of Turkey in accordance with the CMB Approval and the BRSA Approval. Under the CMB Approval, the CMB has authorised the offering, sale and issue of the Notes on the condition that no transaction that qualifies as a sale or offering of Notes (or beneficial interests therein) in Turkey may be engaged in. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665 and in accordance with Decree 32, residents of Turkey may purchase or sell Notes (or beneficial interests therein) offshore on an unsolicited (reverse inquiry) basis in the secondary markets only. Further, pursuant to Article 15(d)(ii) of Decree 32, the purchase or sale of Notes (or beneficial interest therein) offshore on an unsolicited (reverse inquiry) basis by Turkish residents must be made through licensed banks or licensed brokerage institutions authorised pursuant to CMB regulations and the purchase price transferred through licensed banks authorised under BRSA regulations. As such, Turkish residents should use licensed banks or licensed brokerage institutions when purchasing Notes (or beneficial interests therein) and should transfer the purchase price through licensed banks authorised under BRSA regulations. Monies paid for any purchase of Notes are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund (the "*SDIF*").

In accordance with the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency (*Merkezi Kayıt Kuruluşu*) (the "*CRA*") and the interests therein recorded in the CRA; *however*, upon the Bank's request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside of Turkey. Further to the Bank's submission of an exemption request to the CMB, such exemption has been granted by the CMB to the Bank in the CMB Approval. As a result, this requirement will not be applicable to the Notes. Notwithstanding such exemption, the Bank is required to notify the CRA within three Turkish business days from the Issue Date of the amount, issue date, ISIN code, interest commencement date, maturity date, interest rate, name of the custodian and currency of the Notes, as well as the country of issuance.

The Notes will on the Issue Date be represented by beneficial interests in a permanent global certificate in fully registered form without interest coupons (the "*Global Certificate*"). The Global Certificate will be deposited on or about the Issue Date with a common depositary (the "*Common Depositary*") for Euroclear and Clearstream, Luxembourg, and will be registered in the name of a nominee of the Common Depositary. Except as described in this Prospectus, beneficial interests in the Global Certificate will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect accountholders in Euroclear and Clearstream, Luxembourg. Except as described in this Prospectus, owners of beneficial interests in the Global Certificate will not be entitled to have the Notes registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered holders of the Notes under the Notes and the agency agreement relating to the Notes to be dated the Issue Date (the "*Agency Agreement*").

An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted.

In connection with the issue of the Notes, Standard Chartered Bank (the "*Stabilising Manager*") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail; *however*, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Bank may not (whether through over-allotment or otherwise) issue more Notes than have been authorised by the CMB.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes (or any beneficial interest therein) in any jurisdiction to the extent that such offer or solicitation is unlawful. In particular, there are restrictions on the distribution of this Prospectus and the offer and sale of the Notes (and beneficial interests therein) in the United States, Turkey, the United Kingdom and other jurisdictions.

Reference is made to the "Index of Terms" for the location of the definitions of certain terms defined herein.

INFORMATION CONTAINED IN THIS PROSPECTUS

The Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Bank (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

To the fullest extent permitted by law, none of the Joint Lead Managers accept any responsibility for the information contained in, or incorporated by reference into, this Prospectus or any other information provided by the Bank in connection with the Notes or for any statement made, or purported to be made, by a Joint Lead Manager or on its behalf in connection with the Notes. Each Joint Lead Manager accordingly disclaims all and any liability that it might otherwise have (whether in tort, contract or otherwise) in respect of the accuracy or completeness of any such information or statements.

All of the information contained in this Prospectus concerning the Turkish market and the Bank's competitors has been obtained (and extracted without material adjustment) from publicly available information. Where third-party information has been used in this Prospectus, the source of such information has been identified. This information has been accurately reproduced and, as far as the Bank is aware and able to ascertain from the information published by such third-party sources, no facts have been omitted that would render the reproduction of this information inaccurate or misleading. Without prejudice to the generality of the foregoing statement, third-party information in this Prospectus, while believed to be reliable, has not been independently verified by the Bank or any other party.

The language of this Prospectus is English. Certain legislative references and technical terms (*e.g.*, the titles of Turkish legislation and the names of Turkish institutions referenced herein) have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. Any translation of information from Turkish into English for the purpose of inclusion in this Prospectus is direct and accurate.

All data relating to the Turkish banking sector in this Prospectus have been obtained from the BRSA's website at www.bddk.org.tr or the Banks Association of Turkey's website at www.tbb.org.tr, and all data relating to the Turkish economy, including statistical data, have been obtained from the website of the Turkish Statistical Institute (*Türkiye İstatistik Kurumu*) ("*TurkStat*") at www.turkstat.gov.tr, the website of the Central Bank of Turkey (*Türkiye Cumhuriyet Merkez Bankası*) (the "*Central Bank*") at www.tcmb.gov.tr or the Turkish Treasury's website at www.hazine.gov.tr. Such data have been extracted from such websites without material adjustment, but may not appear in the exact same form on such websites or elsewhere. Such websites do not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains statements that may be considered to be "forward-looking statements." Forward-looking statements include statements concerning the Bank's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this Prospectus, the words "anticipates," "estimates," "expects," "believes," "intends," "plans," "aims," "may," "will," "should" and any similar expression generally identify forward-looking statements. Forward-looking statements appear in a number of places throughout this Prospectus, including (without limitation) under "Risk Factors," "Use of Proceeds," "Operating and Financial Review" and "Business of the Group" and include, but are not limited to, statements regarding:

- strategy and objectives,

- trends affecting the Group's results of operations and financial condition,
- asset portfolios,
- loan loss reserves,
- capital spending,
- legal proceedings, and
- the Group's potential exposure to market risk and other risk factors.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements.

The Bank has identified certain of the material risks inherent in these forward-looking statements and these are set out under "Risk Factors."

The Bank has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Bank's management believes that the expectations, estimates and projections reflected in such forward-looking statements are reasonable as of the date of this Prospectus, if one or more risks or uncertainties materialise, including those identified by the Bank in this Prospectus, or if any of the Bank's underlying assumptions prove to be incomplete or incorrect, then the Bank's actual results of operations may vary from those expected, estimated or projected and those variations may be material.

There may be other risks, including some risks of which the Bank is unaware, that could adversely affect the Group's results or the accuracy of forward-looking statements in this Prospectus. Therefore, potential investors should not consider the factors discussed under "Risk Factors" to be a complete set of all potential risks or uncertainties of investing in the Notes.

Potential investors should not place undue reliance upon any forward-looking statements. Without prejudice to any requirements under applicable laws and regulations, the Bank expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances upon which any such forward-looking statement is based.

PRESENTATION OF FINANCIAL INFORMATION

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the prevailing accounting principles and standards set out as per Articles 37 and 38 of the Banking Law No. 5411 and other regulations, circulars, communiqués and pronouncements in respect of accounting and financial reporting and pronouncements made by the BRSA (collectively, the "*BRSA Principles*").

The Group's consolidated and the Bank's unconsolidated annual statutory financial statements as of and for the years ended 31 December 2011, 2012 and 2013 (the "*BRSA Annual Financial Statements*") and the unaudited interim financial statements of the Group and the Bank for the six month period ended 30 June 2013 and 2014 (the "*BRSA Interim Financial Statements*" and, together with the BRSA Annual Financial Statements, the "*BRSA Financial Statements*") have been prepared and presented in accordance with BRSA Principles. It is important to note that the consolidated BRSA Financial Statements are prepared with inclusion of only financial subsidiaries whereas other equity participations are included as noted in the following paragraph. When referenced with respect to a particular financial period, BRSA Annual Financial Statements, BRSA Interim Financial Statements and BRSA Financial Statements shall be understood to refer to that particular financial period only.

The BRSA Financial Statements are prepared on a historical cost basis except for: (a) financial assets at fair value through profit or loss (including financial liabilities held for trading), financial assets available-for-sale, derivative financial instruments and equity participations quoted on the stock exchanges, which are presented on a fair value basis if reliable measures are available, and (b) loans, investments categorised as held-to-maturity and other financial assets, which are presented at amortised cost.

The BRSA Annual Financial Statements have been audited in accordance with the "Regulation Regarding the Authorisation and Activities of Institutions that will Perform Independent Audit at Banks" published in the Official Gazette no: 26333 on 1 November 2006 and International Standards on Auditing by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative, a Swiss entity) ("*KPMG*"). See KPMG's reports included with the BRSA Annual Financial Statements attached to (or incorporated by reference into) this Prospectus. According to BRSA regulations the Bank was required to rotate its external auditors. As a result, KPMG was appointed as the Bank's external auditors as of 1 January 2010.

The BRSA Interim Financial Statements as of and for the six month periods ended 30 June 2013 and 2014 have been reviewed by KPMG in accordance with the previously-noted regulation and International Standards on Auditing. See KPMG's report included with the BRSA Interim Financial Statements attached to (or incorporated by reference into) this Prospectus. With respect to the unaudited BRSA Interim Financial Statements, KPMG has reported that they applied limited procedures in accordance with professional standards for a review of such information; *however*, their report states that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Unless otherwise indicated, the financial information presented herein is based upon the BRSA Financial Statements and has been extracted from the BRSA Financial Statements without material adjustment. The BRSA Financial Statements, all of which are in English, were prepared as convenience translations of the Turkish language BRSA Financial Statements (which translations the Bank confirms were direct and accurate). The English language BRSA Financial Statements were not prepared for the purpose of their inclusion in this Prospectus.

While neither the Bank nor the Group is required by law to prepare its accounts under any accounting standards other than BRSA Principles, including under International Financial Reporting Standards ("*IFRS*"), the Bank's management has elected to publish for the Group audited annual consolidated and unaudited semi-annual consolidated financial statements that have been prepared in accordance with IFRS, with the most recent such financial statements being the Group's unaudited IFRS financial statements as of and for the six month period ended 30 June 2014. IFRS financial statements are not used for any regulatory purposes and the Bank's management uses the BRSA financial statements and related BRSA Principles for the management of the Bank and communications with investors. While the information in this Prospectus is based upon the BRSA Financial Statements, the Group's IFRS audited financial statements as of and for the years ended 31 December 2012 and 2013 and unaudited financial statements as of and for the six month period ended 30 June 2014 (the "*IFRS Financial Statements*") have been incorporated by reference into this Prospectus. When referenced with respect to a particular financial period, IFRS Financial Statements shall be understood to refer to that particular financial period only.

Certain figures included in, or incorporated by reference into, this Prospectus have been subject to rounding adjustments (*e.g.*, certain U.S. Dollar amounts have been rounded to the nearest million). Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, the sources for statements and data concerning the Bank and its business are based upon best estimates and assumptions of the Bank's management. The Bank's management believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the Bank included herein, whether based upon external sources or based upon the Bank's internal research, constitute the best current estimates of the information described.

The contents of any website referenced herein do not form part of (and are not incorporated into) this Prospectus.

NON-GAAP MEASURES OF FINANCIAL PERFORMANCE

To supplement the Group's consolidated financial statements presented in accordance with BRSA Principles, the Group uses certain ratios and measures included in this Prospectus that would be considered non-GAAP financial measures as these measures are not defined under IFRS or BRSA Principles. A body of generally accepted accounting principles such as IFRS or BRSA Principles is commonly referred to as "GAAP." A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but that excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility.

For the Group, these non-GAAP measures include (without limitation): net interest margin, cost-to-income ratio, free capital ratio, return on average total assets, return on average shareholders' equity excluding minority interest, average total assets and average shareholders' equity. Refer to the "Overview - The Group," "Summary Financial and Other Information," "Operating and Financial Review" and "Business of the Group" sections of this Prospectus for an additional discussion of the specific adjustments applied in reconciliation to the directly comparable GAAP measures.

The non-GAAP measures included in this Prospectus are not in accordance with or an alternative to measures prepared in accordance with BRSA Principles and may be different from similarly titled measures reported by other companies. The Bank's management believes that this information, along with comparable measures under BRSA Principles, is useful to investors because it provides a basis for measuring the organic operating performance in the years presented. These measures are used in internal management of the Group, along with the most directly comparable financial measures under BRSA Principles, in evaluating the Group's operating performance. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. Non-GAAP financial measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

The Bank's management believes that these non-GAAP measures, when considered in conjunction with measures under BRSA Principles, enhance investors' and management's overall understanding of the Group's financial performance. In addition, because the Group has historically reported certain non-GAAP results to investors, the Bank's management believes that the inclusion of non-GAAP measures provides consistency in the Group's financial reporting.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

Unless otherwise indicated, references to "*Turkish Lira*" or "*TL*" are references to the Turkish currency, references to "*US$*," "*$*," "*U.S. Dollars*" or "*Dollars*" are to United States Dollars and references to "*Euro*" or "*€*" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

No representation is made that the Turkish Lira or Dollar amounts in this Prospectus could have been or could be converted into Dollars or Turkish Lira, as the case may be, at any particular rate or at all. For a discussion of the effects on the Group of fluctuating exchange rates, see "Risk Factors – Risks Related to the Group's Business – Foreign Exchange and Currency Risk" and "Operating and Financial Review."

DOCUMENTS INCORPORATED BY REFERENCE

The following documents that have previously been published and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Prospectus:

- the independent auditors' audit report and audited consolidated IFRS Financial Statements of the Group for the year ended 31 December 2012,
- the independent auditors' audit report and audited consolidated IFRS Financial Statements of the Group for the year ended 31 December 2013,
- the independent auditors' review report and unaudited consolidated IFRS Financial Statements of the Group for the six months ended 30 June 2014,
- the independent auditors' audit report and audited BRSA Financial Statements of the Group for the year ended 31 December 2011,
- the independent auditors' review report and unaudited BRSA Financial Statements of the Group for the six months ended 30 June 2013,
- the independent auditors' audit report and audited BRSA Financial Statements of the Bank for the year ended 31 December 2011,
- the independent auditors' audit report and audited BRSA Financial Statements of the Bank for the year ended 31 December 2012,

- the independent auditors' audit report and audited BRSA Financial Statements of the Bank for the year ended 31 December 2013,

- the independent auditors' review report and unaudited BRSA Financial Statements of the Bank for the six months ended 30 June 2013, and

- the independent auditors' review report and unaudited BRSA Financial Statements of the Bank for the six months ended 30 June 2014.

Any documents, websites and other sources themselves incorporated by reference in the documents incorporated by reference in this Prospectus do not (and shall not be deemed to) form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus are available on the Bank's website at http://tskb.com/Investor_Relations/cift_sira_pdf.aspx?SectionID=7QRilUW91tTCJT8j%2fsLCRA%3d%3d&ContentId=Zx4tazSCf2%2bXObSSHFUY7g%3d%3d (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus).

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OVERVIEW

The Group

The following text should be read in conjunction with, and is qualified in its entirety by, the detailed information and the financial statements (including the notes thereto) appearing elsewhere in this Prospectus.

The Bank is a Turkish banking institution organised as a joint stock company under the Turkish Commercial Code (No. 6102). The Bank is the first privately owned development and investment bank in Turkey and, as of 30 June 2014, held an 18% share in total assets among Turkish development and investment banks according to the Turkish Banks Association. The Bank, largely in cooperation with international and other developmental financial institutions ("*DFIs*"), is principally involved in promoting the development of the Turkish economy by providing long-term funds for the domestic and international investments of Turkish companies, primarily through foreign currency-denominated loans. As well as supporting private sector investments (mostly in industrial sectors), part of the Bank's original and continuing mandate and strategy is to assist domestic and foreign capital owners to finance the development of new businesses in Turkey and to contribute to improvements in Turkish capital markets.

The Group is also involved in capital market brokerage services, portfolio management and corporate finance advisory services. The Group's investment banking activities include advisory services for public offerings, bond issuances and mergers and acquisitions. The Group's strategic advisory activities include providing company appraisal services, feasibility studies and restructuring services. The Group also provides advisory services to domestic and foreign corporations, including locating strategic or financial partners and advising on company mergers and privatisations. The Bank operates in three main business segments: (a) Corporate Banking, which includes the Project Finance and Corporate Marketing departments, (b) Investment Banking and (c) Advisory Services. The Bank has two branches, one in Ankara and the other in İzmir, as well as its principal İstanbul office

The Bank is the first Turkish-owned bank to be certified to ISO 14001 (the International Organisation for Standardisation's certificate for Environment Management Systems) based upon its environmental management system. The Bank has a large portfolio of loans to resource efficiency, renewable energy and sustainable tourism projects; *however,* the Bank intends to further diversify its loan portfolio. With its numerous environmental and renewable-energy related projects, the Bank is also the first and only Turkish bank to be granted the "Financial Times Sustainable Emerging Markets Bank of the Year" award for Eastern Europe (2008 and 2009). Celebrating its 60th anniversary on 2 June 2010, the Bank was for the third time granted the "Sustainable Bank of the Year" award in the Eastern Europe region under the "Emerging Markets" category of the 2010 Financial Times Sustainable Banking Awards. The Bank also won recognition as the "Best Equity House in Turkey" in the EMEA Finance 2010 European Banking Awards and the "Best Solution Partner Prize" in TIREC's 2011 "Wind Power Awards Turkey." In 2013, the Bank was awarded with the highest corporate governance rating in Turkey (9.40 out of 10) from the Corporate Governance Association of Turkey, which was increased to 9.44 as of 20 October 2014.

As of 30 June 2014, the Group had total assets of TL 14.4 billion, an increase of 7.4% from TL 13.4 billion as of 31 December 2013, itself a 23.8% increase from TL 10.9 billion as of 31 December 2012, a further increase of 7.1% from TL 10.1 billion as of 31 December 2011. As of 30 June 2014, the Group had total shareholders' equity of TL 2.2 billion, an increase of 10.4% from TL 2.0 billion as of 31 December 2013, itself an increase of 5.2% from TL 1.9 billion as of 31 December 2012, which increased 16.1% from TL 1.6 billion as of 31 December 2011.

For the six months ended 30 June 2014, the Group's net profit was TL 213.4 million, a 22% increase from TL 174.6 million for six months ended 30 June 2013. In 2013, the Group's net profit was TL 303.9 million, a 4% decrease from TL 317.0 million for 2012, itself a 21% increase compared to TL 260.7 million for 2011. For the six months ended 30 June 2014, the Group's net interest income was TL 268.0 million, a 17% increase from TL 229.8 million for the six months ended 30 June 2013. In 2013, the Group's net interest income was TL 481.6 million, a 13% increase compared to TL 424.8 million for 2012, which itself was an 18% increase compared to TL 360.0 million for 2011. The Group's net operating income was TL 301.0 million in 2011, TL 381.1 million in 2012, TL 338.2 million in 2013 and TL 249.7 million for the six months ended 30 June 2014 (TL 198.1 million for the six months ended 30 June 2013), while its net profit from continuing operations was TL 258.6 million in 2011, TL 325.2 million in 2012, TL 299.2 million in 2013 and TL 214.4 million for the six months ended 30 June 2014 (TL 173.4 million for the six months ended 30 June 2013).

As of 30 June 2014, the Group's total capital adequacy ratio was 19.1% and its Tier I capital adequacy ratio was 18.1%, both as calculated in accordance with Basel III rules that came into effect on 1 January 2014. As of the same date, the Group's shareholders' equity was TL 2,232 million, its liquid asset ratio (being the total amount of cash and balances with banks, money market placements, trading securities and available-for-sale securities *divided by* the Group's total assets) was 27.2%.

The Bank's shares have been quoted on the İstanbul Exchange (the "*Borsa İstanbul*") since 1986. As of 30 September 2014, 50.00% of the Bank's shares were held by Türkiye İş Bankası A.Ş. ("*İşbank*") (40.52% directly and and the rest through subsidiaries, including the 5.80% of the shares that were held by Camiş Yatırım Holding A.Ş. ("*Camiş Yatırım*")), 8.38% of the shares were held by Türkiye Vakıflar Bankası T.A.O ("*Vakıfbank*"), 39.2% was traded publicly on the Borsa İstanbul (58% of which was owned by foreign investors) and the remaining shares were owned by other institutional shareholders.

The Bank's registered office is Meclis-i Mebusan Cad. No:81 34427 Fındıklı, İstanbul, Turkey. Its registration number is 42527.

Key Strengths

The Bank's management believes that the Group has a number of key strengths that enable the Group to compete effectively in the Turkish banking sector. The Bank sees these key strengths as being the Bank's:

- strong relationships with the World Bank and other DFIs, which provides the Bank with a strong funding base and a sustainable tenor advantage in comparison to commercial and other banks operating in Turkey,

- relationship with İşbank provides access to significant expertise,

- strong capital structure with a conservative match-funding policy,

- recognised and trusted banking brand in Turkey,

- diversified loan portfolio, with a variety different types of loans and borrowers in various industry sectors,

- prudent risk management culture,

- independent process for appraising projects through its internal financial analysis, engineering and other departments, including having its own staff of experienced engineers,

- strong focus on employee training and development, resulting in a higly skilled and loyal workforce,

- high standards of corporate governance and business ethics, and

- having, as a development and investment bank, a regulatory burden that is lower than that of its universal banking competitors.

Prospective investors in the Notes should refer to "Business of the Group - Key Strengths" for more detail on the key strengths outlined above.

Strategy

The Bank's vision is to maintain sustainable growth in Turkey by adding value to the Turkish economy (principally through supporting the private sector with medium- and long-term financing), which reflects the Bank's goal of being the pioneering bank in Turkey's sustainable development. The Bank aims to exhibit and deploy more aggressively its knowledge and potential in all of its core business lines. The Bank is focused on expanding its client base and increasing its allocations in line with the needs of the Turkish market, which offers sustainable growth potential in the mid- and long-term. The Bank's principal strategies to achieve this vision are described below:

- having sectoral diversification in its loan portfolio,

- maintaining its access to medium- and long- term funding from DFIs with competitive terms and conditions,

- diversifying its funding base,

- improving its synergies with its subsidiaries (including to increase its fee-generating capabilities), and

- constantly strengthening its strong personnel base (including in its financial analysis and engineering departments).

Prospective investors in the Notes should refer to “Business of the Group - Strategy” for more detail on the key strategies outlined above.

Risk Factors

Investing in the Notes entails certain risks. Before investing in the Notes, investors should carefully review “Risk Factors” below, which sets out certain risks relating to political, economic and legal circumstances, the Turkish banking industry, the Group and its business and the Notes themselves. Potential investors should not consider the factors discussed under “Risk Factors” to be a complete set of all potential risks or uncertainties of investing in the Notes.

The Notes

The following overview of the Notes sets out certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. The following information is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. See, in particular, "Conditions of the Notes."

Issue:	US$350,000,000 principal amount of 5.375% Notes due 2019.
Interest and Interest Payment Dates:	The Notes will bear interest from and including the Issue Date (*i.e.*, 27 October 2014) at the rate of 5.375% *per annum*, payable semi-annually in arrear in equal instalments of US$26.875 per US$1,000 in principal amount of the Notes on each Interest Payment Date (*i.e.*, 30 April and 30 October in each year); *provided* that: (a) as described in Condition 7.4, if any such date is not a Payment Business Day (as defined in Condition 7.4), then such payment will be made on the next Payment Business Day but without any further interest or other payment being made in respect of such delay, and (b) the first interest payment on the Notes (which will be made on the first Interest Payment Date) will be equal to US$27.323 per US$1,000 in principal amount of the Notes.
Maturity Date:	Unless previously redeemed or purchased and cancelled as provided in the Conditions, the Notes will be redeemed by the Bank at their principal amount on the Maturity Date (*i.e.*, 30 October 2019).
Use of Proceeds:	The net proceeds of the offering of the Notes will be used by the Bank for general corporate purposes.
Status:	The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of the negative pledge in Condition 4) unsecured obligations of the Bank and (subject as provided above) will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Bank, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Negative Pledge:	Subject to certain exceptions set out in Condition 4, so long as any Note remains outstanding, the Bank will not create or have outstanding any Security Interest (as defined in Condition 4) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness unless the Bank, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that: (a) all amounts payable by it under the Notes are secured by the Security Interest equally and ratably with the Relevant Indebtedness, (b) such Security Interest is terminated, (c) such other arrangement (whether or not it includes the giving of a Security Interest) is provided for the benefit of the Noteholders as is approved by an Extraordinary Resolution of the Noteholders or (d) such Security Interest is provided as is approved by an Extraordinary Resolution of the holders of the Notes ("*Noteholders*"). See "Conditions of the Notes – Condition 4."
Certain Covenants:	The Bank will agree to certain covenants, including covenants limiting transactions with affiliates. See "Conditions of the Notes - Condition 5."
Taxation; Payment of Additional Amounts:	All payments in respect of the Notes by or on behalf of the Bank will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever

nature ("*Taxes*") imposed or levied by or on behalf of any Relevant Jurisdiction (as defined in Condition 9), unless the withholding or deduction of the Taxes is required by law. In that event, the Bank will (subject to certain exceptions set out in Condition 9) pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction will equal the respective amounts that would have been receivable in respect of the Notes in the absence of the withholding or deduction. See "Taxation - Certain Turkish Tax Considerations."

All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to FATCA, as provided in Condition 7.2 and, in accordance with Condition 9.1, no additional amount will be payable by the Bank in respect of any such withholding or deduction.

See "Conditions of the Notes - Condition 9."

Optional Redemption for Tax Reasons:... The Notes may be redeemed at the option of the Bank in whole, but not in part, at any time at their principal amount (together with interest accrued to but excluding the date of redemption) if:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 23 October 2014, on the next Interest Payment Date, the Bank would be required to:

(i) pay additional amounts as provided or referred to in Condition 9, and

(ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the applicable prevailing rates on 23 October 2014, and

(b) such requirement cannot be avoided by the Bank taking reasonable measures available to it.

Events of Default:...................................... The Notes will, subject to customary grace periods and exceptions set out in Condition 11, be subject to certain events of default including (among others) non-payment, breach of obligations, cross-acceleration and certain bankruptcy and insolvency events. See "Conditions of the Notes – Condition 11."

Form and Denominations:........................ Notes will be represented by beneficial interests in the Global Certificate in registered form, without interest coupons attached, which will be deposited with the Common Depositary, and registered in the name of a nominee of the Common Depositary. Except in limited circumstances, certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Certificate.

Notes will be issued in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

Governing Law:... The Notes, the Agency Agreement and the Deed of Covenant, and any non-contractual obligations arising out of or in connection with the Notes, the

	Agency Agreement and the Deed of Covenant, will be governed by, and construed in accordance with, English law.
Listing:	Application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted
Turkish Selling Restrictions:	The offer and sale of the Notes (or beneficial interests therein) are subject to restrictions in Turkey in accordance with applicable CMB and BRSA laws and regulations. See "Subscription and Sale - Turkey."
Other Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act or any U.S. State securities laws and the Notes (or beneficial interests therein) may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act). The offer and sale of Notes (or beneficial interests therein) is also subject to restrictions in the United Kingdom. See "Subscription and Sale."
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfill its obligations under the Notes. These are set out under "Risk Factors" and include risks related to the Group and its business, the Group's relationship with the Bank's principal shareholders, Turkey and the Turkish banking industry. In addition, there are certain other factors that are material for the purpose of assessing the risks associated with the Notes, including certain market risks. See "Risk Factors."
Issue Price:	99.926% of the principal amount.
Yield:	5.392% *per annum.*
Security Codes:	ISIN: XS1117601796 Common Code: 111760179
Representation of Noteholders:	There will be no trustee.
Expected Ratings:	"Baa3" by Moody's and "BBB-" by Fitch.
Fiscal Agent, Paying Agent and Transfer Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Deutschland AG

RISK FACTORS

An investment in the Notes involves certain risks. Potential investors should carefully read this entire Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on the Group's business, operations and/or financial condition, which in turn could have a material adverse effect on the Bank's ability to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors might lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Group faces. These are only the risks that the Bank considers to be material to investors in the Notes. In addition, the following describes certain general risks applicable to an investment in Turkey and the Turkish banking industry and, specifically, risks associated with an investment in the Notes. There may be additional risks that the Bank does not consider to be material to investors in the Notes, and risks of which it is currently not aware, and any of these risks could have similar effects to those described in this section.

This Prospectus contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Prospectus. See "Cautionary Statement Regarding Forward-Looking Statements."

Risks Related to the Group's Business

Counterparty Credit Risk – The Group is subject to credit risk in relation to its borrowers and other counterparties

The Group is subject to inherent risks concerning the credit quality of borrowers and other counterparties, which has affected and is expected to continue to affect the value of the Group's assets, particularly if economic conditions in Turkey deteriorate. In addition, changes in the credit quality of the Group's customers and counterparties arising from systemic risks in the Turkish and global financial system can negatively affect the value of the Group's assets. Such risks could also result in increased unemployment, reduced corporate liquidity and profitability, increased corporate insolvencies and the inability of borrowers to service their debt, which negatively affect the Turkish banking sector, including the Group. The Group's exposure to credit risk could lead to a material adverse effect on the Group's business, financial condition and/or results of operations.

Although the Group has put in place policies and procedures to monitor and assess credit risk, taking into account the payment ability and cash generating ability of the borrower in extending credit, the Group might not correctly assess the creditworthiness of its credit applicants. As the Bank does not offer certain services (such as cash management, credit cards and point-of-sale machines), the Group's access to information regarding its borrowers and potential borrowers is limited compared to its commercial bank competitors, who are able to monitor the operating activities of their customers on a daily basis. In order to access information, the Bank gathers information from its intelligence department and its loan monitoring department, monitors information made available by the Central Bank and benefits from the experience of its management. As a result of such limited access, the Bank's ability to establish a potential borrower's creditworthiness might be impaired.

In addition, as the Group's loan portfolio has grown substantially, particularly since the instability caused by the global financial crisis has decreased, the Group has extended credit both to new customers, many of whom may have more limited credit histories, and existing customers. Although such new loans are subject to the Group's credit review and monitoring practices, they might be subject to higher credit risks compared to borrowers with whom the Group has greater experience. Furthermore, the Group's exposures to certain borrowers (particularly for loans for energy projects) are large and the Group is likely to continue making such large loans where such an investment is determined by the Group to be a credit-worthy transaction. The Group is aiming to diversify its loan portfolio and might focus on public private partnerships ("*PPP*") projects in health and education sectors. Uncertainty regarding counterparties active in these sectors and the sectors themselves due to the Group's lack of expertise in these sectors (as compared to the Group's expertise in the energy sector) could result in the Group's lending to uncreditworthy counterparties. See "Risk Management – Credit Risk."

The ratio of non-performing loans to total loans in the Turkish banking sector was 2.7% as of 31 December 2011, 2.9% as of 31 December 2012, 2.7% as of 31 December 2013 and 2.7% as of 30 June 2014 (with respect to the Group, 0.4%, 0.2%, 0.4% and 0.2%, respectively), with the Turkish banking sector's statistics being as reported in the BRSA's monthly statistical bulletin. Although the Group's non-performing loan ratio has been low in recent financial periods, this ratio might increase in future financial periods, especially as the Group begins lending to sectors in which it has less experience. For information on the Group's non-performing loans, see "Operating and Financial Review."

Reliance upon Government Guaranty - The Bank obtains significant funding through loans guaranteed by the Turkish government, any change in the practices or creditworthiness of which could materially negatively impact the Bank and its funding from DFIs

A significant portion of the Group's obligations are guaranteed by the Turkish Treasury (91% of its long-term loans as of 30 June 2014, including all of its loans from the World Bank, which can only lend to companies that are beneficiaries of a sovereign guarantee). The Turkish government publishes an annual aggregate limit for government guarantees (US$3 billion for 2014) and allocates such amount among the Bank and the state banks (such as Vakıfbank, Halkbank and Ziraat) and state-owned public enterprises that can benefit from World Bank and other similar guaranteed financing. As a result of providing this support, the Turkish Treasury preserves its right to appoint a representative to the Bank's Board of Directors. Should the Turkish government cease to provide such guarantees, or become less creditworthy, then the Bank's ability to raise funding from the World Bank and other creditors that require such a guaranty could be significantly negatively affected.

See also "Risks Related to the Notes - Effective Subordination" for a description of the priority that claims of the Turkish Treasury would have over claims under the Notes in case of the bankruptcy of the Bank.

Reliance upon DFIs – The Group relies to a significant extent on DFIs for financing, which exposes the Group to significant risk should such funding cease to be available

As a result of the long-lasting relationships that the Bank has sustained since its establishment, the Bank's primary source of funding comes from DFIs. As of 30 June 2014, 94% (92% as of 31 December 2013) of the Group's foreign currency-denominated borrowing and 76% (77% as of 31 December 2013) of the Group's total borrowing (including repo transactions) was sourced from DFIs and the remaining amount was sourced from syndicated loans, bilateral loans and money market transactions. To date, the Bank has been successful in extending, at a relatively low cost, the maturity profile of its funding base, even during times of volatility in international markets, although this might not continue in the future. Should the Group's relationship with the World Bank and/or one or more of its other DFI partners deteriorate or be reduced or discontinued for any reason, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Control by İşbank – The Bank is controlled by İşbank, whose interests might not be aligned with the interests of the investors in the Notes

İşbank held a 50.00% interest in the Bank's common shares (40.52% of shares held directly by İşbank with 5.80%, 1.90%, 0.89% and 0.89%, respectively, of the shares being held by Camiş Yatırım, Milli Reasürans Türk A.Ş. ("*Milli Reasürans*"), Anadolu Anonim Türk Sigorta Şirketi ("*Anadolu Sigorta*") and Anadolu Hayat Emeklilik A.Ş. ("*Anadolu Hayat Emeklilik*")) as of 30 September 2014. As a result, İşbank has the voting power to influence the Bank's strategy and business significantly, including through its power to elect a majority of the Bank's Board of Directors and to determine the outcome of almost all matters to be decided by a vote of the Bank's shareholders. The interests of İşbank might differ from those of the investors in the Notes and İşbank might cause the Bank to take or refrain from taking certain actions (*e.g.*, declaring dividends or entering into corporate transactions) that might adversely affect the Noteholders' investment in the Notes. See "Ownership."

In addition, if İşbank were to sell (and/or cause any of its subsidiaries to sell) some or all of its shares in the Bank (whether in a secondary offering or a block sale to a strategic buyer), then the Bank might become controlled by a new party with different interests than İşbank. As the Conditions do not include an Event of Default or put option relating to a change in control of the Bank, investors in the Notes will not be entitled to have their Notes repaid as a result of any such change in control.

Competition in the Turkish Banking Sector – The Group faces intense competition in the Turkish banking sector

The Turkish banking sector is highly competitive and dominated by a small number of banks. As of 30 June 2014, there was a total of 50 banks (including domestic and foreign banks, including participation banks, but excluding the Central Bank) licensed to operate in Turkey, with the top five banks (one of which is a state-controlled bank) holding 56% of the banking sector's total loan portfolio (excluding participation banks) and 58% of the total bank assets (excluding participation banks) in Turkey, according to the Turkish Banks Association. The Bank offers comparable pricing as its competitors on financings but offers limited products compared to its commercial bank competitors. As a result, the Group could lose customers, be forced to reduce its margins or be forced to look for more expensive funding sources, among other things. This, in turn, could negatively affect the Group's profitability.

In addition to competition from the private banks, the Group also faces competition from state-controlled financial institutions, such as T.C. Ziraat Bankası A.Ş. ("*Ziraat*"), Vakıfbank and Türkiye Halk Bankası A.Ş. ("*Halkbank*"). Such government-controlled financial institutions historically focused on government and government-related projects but are increasingly focusing on the private sector, leading to increased competition and pressure on margins. In particular, such government-controlled institutions might have access to low cost deposits (on which such institutions pay low or no interest) through "State Economic Enterprises" owned or administered by the Turkish government, which could result in a lower cost of funds that cannot be duplicated by private sector banks such as the Bank. Such actions by government-controlled financial institutions, in addition to ongoing competitive pressures from private financial institutions have caused net interest margins to decline across the Turkish banking market and such downward pressure is expected to continue in at least the short term.

Foreign financial institutions have shown a strong interest in competing in the banking sector in Turkey. HSBC Bank plc, UniCredito Italiano, BBVA, BNP Paribas, National Bank of Greece, Citigroup, ING, Sberbank, Bank Hapoalim, Bank Audi sal, Burgan Bank and Bank of Tokyo-Mitsubishi UFJ are among the many non-Turkish financial institutions that have purchased or made investments in Turkish banks or opened their own Turkish offices; *however*, some of such institutions (such as National Bank of Greece) have (or might) put some or all of their investments in Turkish banks up for sale as a result of their own financial circumstances. The Bank's management believes that further entries into the sector by foreign competitors, either directly or in collaboration with existing Turkish banks, could increase competition in the market. Similarly, the expansion of foreign banks' presence in Turkey, in addition to direct investment, might lead to further competitive pressures.

While the Bank emphasises diversification of its borrowings and adapts its lending strategy in line with the competitive environment in order to make the Bank more efficient in loan allocation and enhance its ability to market different products in a competitive manner, the Group might not be able to offset domestic and foreign competitive pressures in certain sectors.

In addition, Turkish banks traditionally have tended to hold a significant proportion of their assets in Turkish government securities. From 2008 until early 2014, interest rates in Turkey declined substantially, which made holding government bonds a less profitable strategy, resulting in banks shifting funds towards loans to customers and other higher-yielding assets. While interest rates increased significantly in early 2014 due to the Central Bank's actions described elsewhere herein, the Bank's management expects that its competitors' increasing focus on loans to customers will continue. Increased competition for customers might reduce the margins the Group can achieve on its products, which in turn could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Pressure on Profitability – The Group's profitability and profitability growth in recent years might not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector

For 2013, the Bank's return on average total assets was 2.8% (compared to 1.6% for the sector) and the return on its average equity was 17.9% (compared to 14.2% for the sector according to the BRSA) (3.0% and 20.0%, respectively for the Bank and 1.4% and 12.0%, respectively, for the sector for the six months ended 30 June 2014). The Group's profitability might be negatively affected in the short-term and possibly in future periods as a result of a number of factors that are generally impacting the Turkish banking sector, including a slowdown of economic growth in Turkey from the high levels of recent years and volatility in interest rates (see "- Reduction in Earnings on Investment Portfolio" and "- Interest Rate Risk" below), increased competition (particularly as it impacts net interest margins (see "- Competition in the Turkish Banking Sector" above) and Central Bank and governmental actions that seek to limit the growth of Turkish banks and/or the Turkish economy through various conventional and unconventional policy measures, including increased reserve requirements, increased general provisioning requirements and higher risk-weighting for general purpose loans (see "- Banking Regulatory Matters" in this section below and "Political, Economic and Legal Risks Related to Turkey - High Current Account Deficit").

Fee income – The Group's fee income can be volatile

For the six months ended 30 June 2014, the Group's fee income (which excludes fee income generated from cash loans, which is booked under interest income) represented a 3.8% share in its total operating income (5.5%, 5.3% and 6.7% for all of 2013, 2012 and 2011, respectively). The Group's total such fee income includes (among other items) commissions from brokerage services, corporate finance and non-cash loans. The commissions from investment banking, which includes brokerage services and corporate finance, constituted 67% of the total of such fee income for the six months ended 30 June 2014 (71% for all of 2013). Non-cash loans, which include letter of guarantees, letter of credits and export credit agency transactions, constituted 27% of the total fee income for the six months ended 30 June 2014 (22% for all of 2013).

As the Group's investment banking and other market-based activities are significantly affected by trends and market conditions, an unfavourable market environment might have an adverse effect on the Bank's fee income. Similarly, a significant portion of the Group's fee income is derived directly or indirectly from its lending operations, and thus a decline in its lending (whether due to market conditions or otherwise) might have an adverse effect on the Group's business, financial condition and/or results of operations.

Interest Rate Risk – The Group might be negatively affected by volatility in interest rates

The Group's results of operations depend heavily upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income contributed 79.6%, 87.2%, 86.7% and 81.2% of the Group's operating income in 2011, 2012 and 2013 and the first six months of 2014, respectively, and net interest margin as measured on a Bank-only basis was 4.2%, 4.6%, 4.3% and 4.6%, respectively, over the same periods. Interest rates are highly sensitive to many factors beyond the Group's control, including monetary policies pursued by the Central Bank and domestic and international economic and political conditions. Income from financial operations is particularly vulnerable to interest rate volatility, such as occurred in January 2014 as a result of certain Central Bank actions described elsewhere herein. In addition, as of 31 December 2013, 87% of the Group's securities portfolio consisted of Turkish government debt securities, which accounted for 20% of the Group's total assets (88% and 19%, respectively, as of 30 June 2014), large portions of which are fixed rate securities. As a result, a large portion of the Group's total assets is exposed to interest rate risk. Changes in market interest rates could affect the spread between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities and thereby affect the Group's results of operations. For instance, a significant decline in average interest rates charged on loans to customers might result in a decline in net interest margins as the Bank's loan portfolio has a significantly lower duration than its funding (*i.e.*, it re-prices more quickly), which could have a material adverse effect on the Group's business, financial condition and/or results of operations. For more information on recent trends in Turkish interest rates, see "Operating and Financial Review - Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rates."

Although the Group uses various instruments and measures to manage exposures to interest rate risk (see "Risk Management – Interest Rate Risk"), these instruments and measures might not protect the Group from the risks of changing interest rates.

Concentration Risk – A significant percentage of the Group's loan portfolio consists of project finance loans and energy loans

While in recent years, as a result of improvements in the Turkish economy, the percentage of smaller loans in the Group's loan portfolio has been on an increasing trend, significant concentrations still exist. As of 30 June 2014, 54% of the Bank's loan portfolio consisted of project finance loans (48%, 52% and 52%, respectively, as of 31 December 2011, 2012 and 2013), of which as of 30 June 2014 40% were for energy-related projects (*e.g.*, electricity production and electricity and gas distribution projects), 13% for the finance sector, 7% for each of the non-residential real estate, metal and machinery and tourism sectors, 6% for the logistics sector, 5% for the chemistry and plastics sector, 4% for constructions projects, 2% for the automotive industry and 10% for various other sectors.

In addition to these sectoral concentrations, the share of the Bank's receivables from the top 10 borrower groups in the Bank's overall cash loan portfolio was approximately 22.6% as of 30 June 2014 (25.0%, 21.7% and 23.1%, respectively, as of 31 December 2011, 2012 and 2013) while the top 20 constituted 36% of the Bank's loan portfolio as of the same date (40%, 35% and 37%, respectively, as of 31 December 2011, 2012 and 2013). Furthermore, all of the Group's operations and essentially all of its assets are in Turkey. As a result, the Group's business and results of operations are affected by general economic conditions in Turkey. See "—Political, Economic and Legal Risks Related to Turkey."

A material change in the economic conditions of any of these customers or sectors, including declining production volumes in the energy sector, could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Liquidity Risk – The Group is subject to liquidity and financing risk

Liquidity risk comprises uncertainties in relation to the Group's ability, under adverse conditions, to access funding necessary to cover obligations to customers, meet the maturity of liabilities and satisfy capital requirements. It includes the risk of lack of access to funding (other than from the reserves held with the Central Bank and limits granted to the Bank by the Central Bank both in Turkish Lira and foreign currency), the risk of unexpected increases in the cost of financing and the risk of not being able to structure the maturity dates of the Group's liabilities reasonably in line with its assets, as well as the risk of not being able to meet payment obligations on time at a reasonable price due to liquidity pressures. The Group's inability to meet its net funding requirements due to inadequate liquidity could materially adversely affect its business, financial conditions and/or results of operations.

The Group, which is not legally empowered to receive deposits, relies primarily upon funds obtained from DFIs, which accounted for almost 94% of the Bank's borrowings (excluding repo transactions) as of 30 June 2014. The Bank also secures funds from other financial institutions in the form of syndicated loans, bilateral loans, short-term money markets and repo transactions. An inability on the Group's part to access funds or to access the markets from which it raises funds may put the Group's positions in liquid assets at risk and lead the Group to be unable to finance its operations and growth plans adequately. The Group might be unable to secure funding through sources such as its current loan facilities if conditions in these markets, or its creditworthiness, were to deteriorate.

A rising interest rate environment could compound the risk of the Group not being able to access funds at favourable rates or at all. As central banks unwind the expansive liquidity that has been provided during the recent global crisis, competition among banks and other borrowers for the reduced global liquidity might result in increased costs of funding. This and other factors could lead creditors to form a negative view of the Group's liquidity, which could result in lower credit ratings, higher borrowing costs and/or less access to funds. In addition, the Group's ability to raise or access funds might be impaired by factors that are not specific to its operations, such as general market conditions, disruptions of the financial markets or negative views about the prospects of the sectors to which the Group lends. While the Group aims to maintain at any given time an adequate level of liquidity reserves, strains on liquidity caused by any of these factors or otherwise (including as a result of the requirement to repay any indebtedness, whether on a scheduled basis or as a result of an acceleration due to a default, change of control or other event) could adversely affect the Group's business, financial condition and/or results of operations. For example, in case of a liquidity crisis, wholesale funding would likely become more difficult to obtain, which may adversely affect borrowing using certain capital market instruments (such as eurobonds). See also "- Reliance upon DFIs" above.

Similarly, if the credit rating of the Republic of Turkey and/or members of the Group is downgraded or put on negative watch, then the Group may experience higher levels of cost of funding and difficulty accessing certain sources of international or wholesale funding. As of the date of this Prospectus, the rating of Turkey's foreign currency-denominated long-term debt is "Baa3 (negative outlook)" from Moody's and "BBB-" from Fitch. See also "- Reliance on Government Guaranty" above.

The Group might not be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Group's inability to refinance could result in its failure to service its debt, fulfill loan commitments or meet other on- or off-balance sheet payment obligations on specific dates, which could have a material adverse effect on the Group's business, financial condition and/or results of operations. For further information on the Group's liquidity risk management policy, see "Risk Management – Liquidity Risk."

Foreign Exchange and Currency Risk – The Group is exposed to foreign exchange and currency risks

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly U.S. Dollars and Euro. For example, the Group had extended loans denominated in currencies other than Turkish Lira totaling the equivalent of TL 6,135 million, TL 6,572 million, TL 8,473 million and TL 8,691 million as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, representing 97%, 96%, 94% and 91%, respectively, of the Group's total loans at such dates. In preparing its BRSA Financial Statements, transactions in currencies other than Turkish Lira are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. As a result, and notwithstanding that the Group's balance sheet is significantly balanced from a currency perspective, the Group's reported income is affected by changes in the value of the Turkish Lira with respect to foreign currencies. The overall effect of exchange rate movements on the Group's results of operations depends upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies.

In addition, while the Bank's assets and liabilities are largely in the same currencies (with approximately 75% of the Group's total assets and liabilities being denominated in foreign currencies as of 30 June 2014) the depreciation or appreciation of the Turkish Lira against foreign currencies might negatively affect the Group's net interest income.

Market Risk – The Group is exposed to market risk

The Group is subject to risks that arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group seeks to manage its market risk exposure through a range of measures (see "Risk Management – Market Risk" for further information). Such measures might not be successful in mitigating all market risk and the Group's exposure to market risks could lead to a material adverse effect on the Group's business, financial condition and/or results of operations. A number of these risks are described in greater detail below.

Loan Growth – The rapid growth of the Group's loan portfolio subjects it to the risk that it might not be able to maintain asset quality

The significant and rapid increase in the Group's loan portfolio (including a significant portion of unseasoned loans) over recent years has increased the Group's credit exposure and requires continued monitoring by the Group's management of its lending policies, credit quality and adequacy of provisioning levels through the Group's risk management structure. The Group intends to increase its loan portfolio further, particularly with medium-sized companies, and any such increase could further increase the credit risk faced by the Group. Negative developments in the Turkish economy could affect these borrowers more than large companies, resulting in higher levels of non-performing loans (the "*NPLs*") and, as a result, higher levels of provisioning. Similarly, the Group is seeking to diversify its loan portfolio into areas in which it currently has less or no significant exposure. Any failure by the Group to manage the growth of its loan portfolio or the credit quality of its creditors within prudent risk parameters or to monitor and regulate the adequacy of its provisioning levels could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Capital Adequacy – The Group might not be able to meet minimum capital adequacy requirements and/or might have difficulty raising capital on acceptable terms, if at all

By law, each of the Bank and the Group is required to maintain certain capital levels and capital ratios in connection with its business. Such capital ratios depend in part upon the level of risk-weighted assets. The Bank's management expects that (as evidenced by the growth in cash loans over recent years) improving economic conditions will result in increased lending (in absolute terms) and, as a result, there will be a continuing increase in the Group's risk-weighted assets. The increase in lending might adversely affect the Group's capital adequacy ratios, which also might be affected by potential changes in law as to the manner in which capital ratios are calculated. Additionally, it is possible that the Bank's and/or the Group's capital levels could decline due to, among other things, credit losses, increased credit reserves or currency fluctuations. In addition, the Group might need to raise additional capital in the future to ensure that it has sufficient capital to support future growth in its assets in order to remain competitive in the Turkish banking environment, particularly in line with the Group's growth strategy. Should the Group desire or be required to raise additional capital, that capital might not be available at all or at a price that the Group considers to be reasonable. If any or all of these risks materialise, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Turkish banks' capital adequacy requirement will be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented between 2014 and 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the Regulation on the Equities of Banks (the "*2013 Equity Regulation*") and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. The 2013 Equity Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier I capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%) and (b) changed the risk weights of certain items that are categorised under "other assets." The 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in a bank's Tier II capital.

In addition to these implementations: (a) the Regulation on the Capital Maintenance and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that will enter into effect on 1 January 2015. Lastly, in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, the BRSA has published a regulation on a liquidity coverage ratio.

If other capital adequacy-related revisions are adopted and the Bank and/or the Group is unable to maintain its capital adequacy ratios above the minimum levels required by the BRSA (whether due to its inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group's business, financial condition and/or results of operations. See "Turkish Regulatory Environment" below for a further discussion on Basel III.

Insufficient Collateral – The value of collateral securing the Group's loans and advances might not be sufficient

The Group might have difficulty realising on collateral or enforcing guarantees or other third-party credit support arrangements when its debtors default. In addition, the time and costs associated with enforcing security might make it uneconomical for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its loan losses, although a significant portion of the Group's loans are collateralised.

Deterioration in economic conditions in Turkey or a decline in the value of certain markets might reduce the value of collateral securing the Group's loans and advances, increasing the risk that the Group would not be able to recover the full amount of any such loans and advances in a default. In accordance with the Group's credit policies, if any collateral shortfall is identified during credit reviews, then borrowers are required to provide additional collateral sufficient to cover any shortfall; *however*, a borrower might not be willing or able to post additional collateral. If the Group seeks to realise on any such collateral, it might be difficult to find a buyer and/or the collateral might be sold for significantly less than its appraised or actual value.

The Group also undertakes certain types of lending without tangible collateral, relying only upon guarantees, which might not be sufficient to cover the outstanding amount following a default. As a result of the above, the Group might not be able to realise adequate proceeds from collateral disposals to cover loan losses, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Reduction in Earnings on Investment Portfolio – The Group might be unable to sustain the level of earnings on its securities portfolio obtained during recent years

The Group has historically generated a significant portion of interest income from its securities portfolio, with interest income derived from the Group's securities portfolio in 2011, 2012 and 2013 and the first half of 2014 accounting for 38%, 40%, 35% and 36%, respectively, of its total interest income (and 34%, 35%, 32% and 29%, respectively, of its gross operating income before deducting interest expense and fee and commission expense). The CPI-linked securities in the Bank's investment portfolio have been providing high real yields compared to other government securities, which also have been generating high nominal yields in a high inflation environment, but their impact on the Bank's earnings will vary as inflation rates change.

While the contribution of income from the Group's securities portfolio has been significant over recent years, such income might not be as large in coming years. In addition, the continuation of the recent trend towards lower interest rates or decreases in CPI levels might result in lower nominal earnings on the Group's holdings of securities. As such, high levels of earnings from the Group's securities portfolio might not be sustainable in future periods. If the Group is unable to sustain its high levels of earnings from its securities portfolio, then this could have a material adverse effect on its business, financial condition and/or results of operations. In addition, as the Group's investment portfolio is heavily concentrated in Turkish government securities, see also "Political, Economical and Legal Risks Related to Turkey - Government Default" below.

Correlation of Financial Risks – The occurrence of a risk borne by the Group could exacerbate other risks that the Group faces

The exposure of the Group's business to a market downturn in Turkey or any other risks could exacerbate or trigger other risks that the Group faces. For example, if the Group incurs substantial borrower default due to a market downturn in Turkey, then its need for liquidity could rise sharply while the availability of such liquidity in the market could be impaired. In addition, in conjunction with a market downturn, the Group's customers could incur substantial losses of their own, thereby weakening their financial condition and increasing the credit risk of the Group's exposure to such customers. If this or any other combination of risks occurs, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Banking Regulatory Matters – The activities of the Group are highly regulated and changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or the failure to comply with such laws or regulations could have an adverse impact on the Group's business

The Group is subject to a number of banking, competition, antitrust and other laws and regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. Turkish banks' capital adequacy requirements will be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented between 2014 and 2019. See "- Capital Adequacy" above and "Turkish Regulatory Environment - Capital Adequacy."

As a result of the recent global financial crisis, policy makers in Turkey, the EU and other jurisdictions in which the Group operates have enacted or proposed various new laws and regulations, and there is still uncertainty as to what impact these changes might have. In addition, the Turkish government (including the BRSA or the Central Bank) has introduced (and might introduce in the future) new laws and regulations that increase reserves, increase provision requirements for loans or otherwise negatively affect the Group's business and/or profitability. The Group might not be able to pass on any increased costs associated with such regulatory changes to its customers, particularly given the high level of competition in the Turkish banking sector (see "Turkish Banking Sector — Competition"). Accordingly, the Group might not be able to sustain its level of profitability in light of these regulatory changes and the Group's profitability might be materially adversely impacted until (if ever) such changes could be incorporated into the Group's pricing.

Such measures could also limit or reduce growth of the Turkish economy and consequently the demand for the Group's products and services or its growth plans. As a consequence of certain of these changes, the Group might be required to increase its capital reserves and might need to access more expensive sources of financing (including equity) to meet its funding requirements. Furthermore, development and investment banks (such as the Bank) are exempt from banking and insurance transaction tax for investment loans, according to the Turkish Expenditure Taxes Law (Law No. 6802). Any regulatory change that abolishes such exemption could have an adverse affect on the Group's loan volume, profitability and/or access to funds. Any failure by the Group to adopt adequate responses to these or future changes in the regulatory framework could have an adverse effect on the Group's business, financial condition and/or results of operations. Finally, non-compliance with regulatory requirements or laws could expose the Group to potential liabilities and fines and/or damage its reputation.

Related Party Transactions – The Bank is exposed to risks related to doing business with related parties

The Banking Law places limits on a Turkish bank's exposure to related parties. Although development and investment banks (such as the Bank) are exempt from BRSA's requirements for exposures to related parties, the Group enters into banking transactions with its affiliates within the framework of the Banking Law and tax regulations. Although the Bank's management believes that these transactions are on an arm's length basis and in line with the Banking Law and tax regulations, the interests of the Group might not at all times be aligned with the interests of the Noteholders. For further information on the Group's transactions with its affiliates, see "Business of the Group – Subsidiaries and Other Affiliates."

Measures to Prevent Money Laundering and/or Terrorist Financing – Third parties might use the Group as a conduit for illegal or terrorist activities without the Group's knowledge

Although the Group does not accept deposits, has adopted various policies and procedures, has put in place systems, including internal control, "know your customer" rules and transaction monitoring, aimed at preventing money laundering and terrorist financing, and seeks to adhere to all requirements under Turkish legislation and international standards aimed at preventing the Group being used as a vehicle for money laundering or terrorist financing, these policies and procedures might not be completely effective. Similar to other financial institutions, if the Group fails to comply with timely reporting requirements or other anti-money laundering or anti-terrorist financing regulations and/or is associated with money laundering and/or terrorist financing, its business, results of operations and/or financial condition could be adversely affected. In addition, involvement in such activities might carry criminal or regulatory fines and sanctions and could severely harm the Group's reputation.

Risk Management Strategies – The Group's risk management strategies and internal controls might leave it exposed to unidentified or unanticipated risks

The Group's risk management strategies and internal controls might leave it exposed to unidentified or unanticipated risks. The Group's risk management and internal control policies and procedures might not adequately control, or protect the Group against, all credit, liquidity, market and other risks. In addition, certain risks might not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data, which, as evidenced by events caused by the global financial crisis, might not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate.

Any material deficiency in the Group's risk management or other internal control policies or procedures might expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Group's business, results of operations and/or financial condition. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

Turkish Disclosure Standards – Turkish disclosure standards might differ in certain significant respects from those in certain other countries, leading to a lesser amount of information being available

Historically, the reporting, accounting and financial practices applied by Turkish banks have differed in certain respects from those applicable to similar banks in the European Union or in other similar economies. There is less publicly available information on businesses in Turkey than is regularly published by similar businesses in the EU or in other similar markets and any information that is published might only be presented in Turkish. The BRSA rules require Turkish banks to publish their financial reports on their websites and their annual financial reports in the official gazette in Turkey. Annual financial reports comprise audited financial statements and activity reports, and quarterly financial reports comprise reviewed financial statements, interim management reports and corporate governance compliance reports. In recent years, many Turkish banks (including the Bank) have also prepared financial statements using IFRS for certain reporting periods, with their financial statements being available first under BRSA Principles and only subsequently made available in IFRS financial statements. Most Turkish banks, including the Bank, have English versions of their financial statements available on their websites. In addition, banks that are listed on the Borsa İstanbul, such as the Bank, are also required to publish their financial statements on a quarterly basis and to disclose any significant development that is likely to have an impact on investors' decisions and/or that would be likely to have a significant effect on the price of the issuer's securities (both through the Turkish government's Public Disclosure Platform's website and the bank's own website). Nonetheless, investors might not have access to the same depth of disclosure relating to the Bank as they would for investments in banks in the European Union and other more-developed markets.

The Group maintains its accounting systems and prepares its accounts in accordance with the relevant legislation and publishes quarterly financial results in accordance with the BRSA Principles. With respect to IFRS, the Bank only publishes annual and semi-annual consolidated financial statements for the Group. There are differences between the BRSA Financial Statements and the IFRS Financial Statements. A summary of the most material of such differences as they apply to the Group has been included elsewhere in this Prospectus, including the differences described above and other potential differences that may materially affect the Group's results of operations and financial position (see Appendix A - "Overview of Significant Differences between IFRS and BRSA Accounting Principles"). Potential investors should rely upon their own examination of the Group, the terms of the Notes and the financial and other information contained in this Prospectus.

Operational Risk – The Group might be unable to monitor and prevent losses arising from fraud and/or operational errors or disruptions

Similar to other financial institutions, the Group is susceptible to, among other things, fraud by employees or outsiders, unauthorised transactions by employees, lack or loss of skilled information technology ("*IT*") employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). The Group is also subject to service interruptions from time to time for third party services such as telecommunications, and service interruptions due to natural disasters, which are beyond the Group's control. Such interruptions may result in interruption to services to the Group's branches and/or impact customer service. Errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for any bank to detect quickly or at all. While the Group maintains a system of controls designed to monitor and control operational risk, the Group might suffer losses from such risks. Losses from the failure of the Group's system of internal controls to discover and rectify such matters could have a material adverse effect on the Group's business, financial condition and/or results of operations. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

Dependence upon Information Technology Systems – The Group's operations could be adversely affected by interruptions to, or the improper functioning of, its information technology systems

The Group's business services and functions rely upon the proper delivery of the IT services or applications to support their operations. These IT services or applications run on IT systems that have been developed either in-house or by third-party providers. While the Group has implemented and has future plans for various projects to ensure the proper functioning of its IT systems, any significant inadequacy, disruption, breach, failure, performance issues or interruption of the Group's IT systems or any other systems in its network, operations or elsewhere, inadequate selection of new technology, delays caused by the implementation of new technology or incomplete integration of new technology into the existing IT systems could result in unforeseen expense and difficulties in conducting the Group's operations, which might have a material adverse effect on the Group's business, financial condition and/or results of operations.

In addition, all of the Group's servers are maintained in the Group's main data center located in Fındıklı in İstanbul and all of the Group's IT applications depend upon the proper functioning of the Fındıklı data center. In the event of a disaster, natural or otherwise, whereby the Group cannot operate its technology infrastructure, the Group has a contract with Turkcell Superonline to provide a recovery solution for the Group's critical systems at a center located in the Asian side of İstanbul; *however*, the recovery systems at the disaster recovery site might not be adequate to ensure connectivity with the Bank's offices and protect the Group's IT systems and operations in such an event. For further information on the Group's IT system, see "Business of the Group – Information Technology."

Personnel – The Group's continued success depends upon retaining key members of its senior management and its ability to recruit, train and motivate qualified staff

The Group is dependent upon its senior management to implement its strategy and operate its day-to-day business. In addition, corporate and other relationships of members of senior management are important to the conduct of the Group's business. In a rapidly emerging and developing market such as Turkey, demand for highly trained and skilled staff is very high and requires the Group to continually re-assess its compensation and employment policies. If members of the Group's senior management were to leave, particularly if they were to join competitors, then those employees' relationships that have benefited the Group might not continue with the Group. In addition, the Group's continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. The Group's failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Turkish Banking System – The Turkish banking sector has experienced significant volatility in the past and might experience significant volatility in the future

The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several financial institutions. Following this crisis, the government made structural changes to the Turkish banking system to strengthen the private (*i.e.*, non-governmental) banking sector and allow it to compete more effectively against the state-controlled banks. Notwithstanding such changes, the Turkish banking sector remains subject to volatility.

If the general macro-economic conditions in Turkey, and the Turkish banking sector in particular, were to suffer another period of volatility, there can be no assurance that this would not result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Dependence upon Banking and Other Licenses – Group members might be unable to maintain or secure the necessary licenses for carrying on their business

All banks established in Turkey require licensing by the BRSA. Each of the Bank and, to the extent applicable, each of its subsidiaries has a current Turkish and/or other applicable license for all of its banking and other operations. The Bank's management believes that the Bank and each of its subsidiaries is currently in compliance with its existing material license and reporting obligations; nevertheless, if it is incorrect, or if any member of the Group were to suffer a future loss of a license, breach the terms of a license or fail to obtain any further required licenses, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Political, Economic and Legal Risks Related to Turkey

Global Financial Crisis and Eurozone Crisis – The Group has been, and will likely continue to be, subject to risks arising from the recent global financial crisis and eurozone crisis

Starting in mid-2007, the global financial crisis significantly affected global economic conditions. The crisis resulted in significant declines in the value of a broad range of real and financial assets, increased volatility in financial markets and reduced availability of funding. Internationally, many financial institutions sought to raise additional capital and a number failed or merged with larger institutions. As a result of concern about the stability of the financial markets generally and the strength of counterparties in particular, many lenders and institutional investors reduced lending and, in some cases, ceased providing funding to borrowers, including other financial institutions, which significantly reduced liquidity and the availability of credit in the global financial system. Certain of these conditions persist.

The global financial crisis and related economic slowdown also significantly impacted the Turkish economy and the principal external markets for Turkish goods and services. During the global financial crisis, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which led to an increase in unemployment. Turkey's GDP contracted by 7.0% in the fourth quarter of 2008 and declined 4.8% in 2009. Following the implementation of fiscal and monetary measures during 2009, the Turkish economy began to recover in the fourth quarter of 2009, resulting in Turkey's GDP growing by 9.2% in 2010, 8.8% in 2011, 2.1% in 2012, 4.0% in 2013 and 3.3% in the first half of 2014 and its unemployment rate decreasing from 16.1% in February 2009 to 9.1% as of 30 June 2014 (source: Turkstat). There can be no assurance that the unemployment rate will, in fact, continue to improve, or even that it will not increase in the future. Continuing high levels of unemployment might affect the Group's retail customers and business confidence, which could impair its business strategies and have a material adverse effect on its business, financial condition and/or results of operations.

Concerns about a sovereign debt crisis in certain European countries, including Cyprus, Greece, Ireland, Italy, Portugal and Spain, also undermined investor confidence in recent years and resulted in a general deterioration of the financial markets. Although there have been indications of economic recovery in the eurozone, the recovery might not continue and, in fact, recent economic performance in Europe has been very weak. Any deterioration in the condition of the global or Turkish economies, or continued uncertainty around the potential for such deterioration, could have a material adverse effect on the Group's business and customers in a number of ways, including, among others, the income, wealth, liquidity, business and/or financial condition of the Group's customers, which, in turn, could further reduce the Group's asset quality and/or demand for the Group's products and services and negatively impact the Group's growth plans. The Group's business, financial condition and/or results of operations might also continue to be adversely affected by conditions in the global and Turkish financial markets as long as they remain volatile and subject to disruption and uncertainty.

High Current Account Deficit – Turkey's high current account deficit might result in governmental efforts to decrease economic activity

In 2010, Turkey's current account deficit was US$45.4 billion, which increased to US$75.1 billion in 2011 before decreasing to US$48.5 billion in 2012, according to the Central Bank. The decline in the current account deficit in 2012 was largely the result of coordinated measures initiated by the Central Bank, the BRSA and the Turkish Ministry of Finance to reduce short-term capital inflows and curb domestic demand. The main aim of these measures was to slow growth in the current account deficit by controlling the rate of loan growth.

The decline in the current account deficit experienced in 2012 came to an end in early 2013 as a result of the recovery in domestic demand, with the deficit in 2013 rising to US$64.9 billion. To combat this increase, a package of macro-prudential measures issued by the BRSA to limit domestic demand, the Central Bank's tight monetary policy and increases in taxes, combined with the depreciation of the Turkish Lira, contributed to a decrease in the 12-month current account deficit to US$48.9 billion as of August 2014 as a result of their negative effect on domestic demand and GDP.

If the value of the Turkish Lira relative to the U.S. Dollar and other relevant trading currencies changes, then the cost of importing oil and other goods and services and the value of exports might both change in a corresponding fashion, resulting in potential increases or decreases in the current account deficit. As an increase in the current account deficit might erode financial stability in Turkey, the Central Bank has taken certain actions to maintain price and financial stability. For example, in meetings in July and August 2013, the Central Bank increased the upper band of the interest rate corridor (the lending rate) from 6.5% to 7.25% and then 7.75% and also announced that there will be no funding to banks via the primary dealer repo facility on additional monetary tightening days. Moreover, in its November 2013 and December 2013 meetings, the Central Bank announced that one month repo auctions were being terminated, that the maximum amount of funding via one-week repo was reduced from TL 10 billion to TL 6 billion and that the total amount of funding offered to primary dealer banks was reduced to approximately TL 6.5 billion.

The Central Bank has continued to utilise its monetary tools frequently to try to maintain economic growth without unduly increasing the current account deficit, including through changes in reserve option mechanisms, altering the maturity of funding it provides to banks and limiting the growth of consumer loans through increased provisioning requirements. Such actions by the Central Bank and similar or other actions that it might take in the future might not be successful in fostering economic growth while maintaining an acceptable current account deficit. See "Turkish Regulatory Environment." These actions could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Although Turkey's economic growth dynamics depend to some extent upon domestic demand, Turkey is also dependent upon trade with Europe. A significant decline in the economic growth of any of Turkey's major trading partners, such as the EU, could have an adverse impact on Turkey's balance of trade and adversely affect Turkey's economic growth. While diversification in the export markets towards the Middle East and other regional countries, and the potential growth in trade with Russia due to the on-going disputes relating to Ukraine, partially offset the negative impacts of external demand-related risks on domestic economic activity, the EU remains Turkey's largest export market. A decline in demand for imports from the EU could have a material adverse effect on Turkish exports and Turkey's economic growth and result in an increase in Turkey's current account deficit.

In addition, Turkey is an energy import-dependent country, recording US$57.2 billion of energy imports in 2013. It should be noted that in 2013 Turkey's current account deficit reached US$65.0 billion and, as such, energy imports represented approximately 88% of the country's current account deficit during the year. Although the government has been heavily promoting new domestic energy projects, these have not yet significantly decreased the need for imported energy and thus any geopolitical development concerning energy security could have a material impact on Turkey's current account balance.

If the current account deficit widens more than anticipated, financial stability in Turkey might deteriorate. Financing the high current account deficit might be difficult in the event of a global liquidity crisis and/or declining interest or confidence of foreign investors in Turkey, and a failure to reduce the current account deficit could have a negative impact on Turkey's sovereign credit ratings. Any such difficulties might lead the Turkish government to seek to raise additional revenue to finance the current account deficit or to seek to stabilise the Turkish financial system, and any such measures might adversely affect the Group's business, financial condition and/or results of operations.

Political Developments – Political developments in Turkey might negatively affect the Group's business, financial condition and/or results of operations

Negative changes in the government and political environment, including the failure of the government to devise or implement appropriate economic programmes, may adversely affect the stability of the Turkish economy and, in turn, the Group's business, financial condition and/or results of operations. Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common, and in the over 90 years since its formation Turkey has had numerous short-lived governments, with political disagreements frequently resulting in early elections. Furthermore, though its role has diminished in recent years, the Turkish military establishment has historically played a significant role in Turkish government and politics, intervening in the political process.

Beginning in 2013, Turkish politics have been particularly volatile. Protests starting in May 2013 in İstanbul, and spreading to Ankara and other major cities in Turkey, against plans to replace Gezi Park, an urban park in İstanbul's central Taksim Square, with a commercial development, and resulting confrontations among protestors and security forces, contributed to a significant increase in the volatility of Turkish financial markets. Later in 2013, Turkish politics entered a second phase of uncertainty commencing with a series of arrests of prominent businessmen and family members of some cabinet ministers (who then resigned) on suspicions of corruption. While the causes of these events are uncertain, there is speculation that it reflects a division among important elements of the Turkish government, police and judiciary. The government's responses to these events have included the removal of certain prosecutors and police from their offices and proposals to change the manner in which the police and judicial authorities are supervised by the national government, which has led to concerns about the separation of powers.

These events, which coincided with the U.S. Federal Reserve's decision to reduce monthly asset purchases, contributed to significant declines in the value of the Turkish stock market and the Turkish Lira. While these circumstances have receded and the Bank's management does not believe that these events have had a material long-term negative impact on Turkey's economy or the Group's business, financial condition or results of operation, it is possible that these or other political circumstances could have such an impact and/or a negative impact on investors' perception of Turkey, the strength of the Turkish economy and/or the price of an investment in the Notes.

The 2013 events are particularly noteworthy as they occurred shortly before municipal elections were held in Turkey on 30 March 2014, with Presidential elections following on 10 August 2014. In the March 2014 elections, the governing party received approximately 45% of the total votes cast, which (though less than the 49.8% received in the 2011 elections) can be considered to be a successful election for the governing party. The governing party also won the mayoral contest in İstanbul and Ankara, while the primary opposition party won the mayoral contest in İzmir, Turkey's third largest city. Following the success in the local elections, the former Prime Minister Recep Tayyip Erdoğan announced his candidacy to run for the presidency, which he won with approximately 52% of the vote. The former minister of foreign affairs, Ahmet Davutoğlu, was elected as the prime minister on 27 August 2014. The events surrounding future elections and/or the results of such elections could contribute to the volatility of Turkish financial markets and/or have an adverse effect on investors' perception of Turkey. Actual or perceived political instability in Turkey could have a material adverse effect on the Group's business, financial condition and/or results of operations and on the value of the Notes.

Turkish Economy – The Turkish economy is subject to macro-economic risks

All of the Group's operations and essentially all of its assets are in Turkey. As a result, the Group's business and results of operations are affected by general economic conditions in Turkey. Since the early 1980s, the Turkish economy has undergone a transformation from a highly protected and regulated system to a free market system. Although the Turkish economy has responded positively to this transformation, it has experienced severe macro-economic imbalances, including significant current account deficits, and a considerable level of unemployment. While the Turkish economy has been significantly stabilised due, in part, to support from the International Monetary Fund (the last stand-by agreement with which terminated in 2008), Turkey might experience a further significant economic crisis in the future, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Turkey's GDP grew by 8.4% in 2005, 6.9% in 2006, 4.7% in 2007 and 0.7% in 2008. Following these gains, Turkey's GDP contracted by 7.0% in the fourth quarter of 2008 and 4.8% in 2009, before growing in 2010 (9.2%), 2011 (8.8%), 2012 (2.1%), 2013 (4.0%) and, on a year-over-year basis, in the first half of 2014 (3.3%). The ratio of net public debt to GDP decreased from 41.7% in 2005 to 36.0% in 2013. In October 2013, the government announced a three year medium-term economic programme from 2014 to 2016. Under this programme, the government has set growth targets of 4.0% for 2014 and 5.0% for each of 2015 and 2016, as well as a gradual decrease in the net public debt to GDP ratio, according to the Ministry of Development. Should Turkey's economy continue to experience macro-economic imbalances, it could have a material adverse impact on the Group's business, financial condition and/or results of operations.

Inflation Risk – Turkey's economy has been subject to significant inflationary pressures in the past and might become subject to significant inflationary pressures in the future

The Turkish economy has experienced significant inflationary pressures in the past with year-over-year consumer price inflation rates as high as 69.7% in the early 2000s; *however*, weak domestic demand and declining energy prices in 2009 caused the domestic year-over-year consumer price index to decrease to 6.5% at the end of 2009, the lowest level in many years. Consumer price inflation was 6.4%, 10.4%, 6.2% and 7.4% in 2010, 2011, 2012 and 2013, respectively, with producer price inflation during those years of 8.9%, 13.3%, 2.5% and 7.0%, respectively. The annual consumer price inflation reached 8.9% as of September 2014, which increase in inflation was principally due to an increase in the prices of core goods driven by the pass through to consumers of exchange rates and increases in taxes and an increase in food prices caused by adverse weather conditions. As these levels of inflation are expected to continue in the remainder of 2014, consumer price inflation might exceed the Central Bank's inflation target, which might cause the Central Bank to modify its monetary policy. Inflation-related measures that may be taken by the Turkish government in response to increases in inflation could have an adverse effect on the Turkish economy. If the level of inflation in Turkey were to continue to fluctuate or increase significantly, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Terrorism and Conflicts – Turkey and its economy are subject to internal and external unrest and the threat of terrorism

Turkey is located in a region that has been subject to ongoing political and security concerns. Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with an investment in Turkish securities. Regional instability has also resulted in an influx of displaced persons in Turkey, and thus the displaced person population has increased and is expected to increase. In recent years, political instability has at times increased markedly in a number of countries in the Middle East, North Africa and Eastern Europe, such as Ukraine, Syria, Iraq, Libya, Tunisia, Jordan, Bahrain and Yemen. Unrest in those countries might have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy.

The conflict in Syria has been the subject of significant international attention and is inherently volatile and its impact and resolution are difficult to predict. In early October 2012, Turkish territory was hit by shells launched from Syria, some of which killed Turkish civilians. On 4 October 2012, the Turkish Parliament authorised the government for one year to send and assign military forces in foreign countries should such action be considered appropriate by the government, which authorisation was extended for a further year on each of 3 October 2013 and 2 October 2014. More recently, elevated levels of conflict have arisen in Iraq and Syria as militants of the Islamic State of Iraq and Syria ("*ISIS*") seized control of key Iraqi cities, which has caused a significant displacement of people. In August and September 2014, a U.S.-led coalition began an anti-ISIS aerial campaign in northern Iraq and Syria. Recent developments in Iraq also raise concerns as Iraq is one of Turkey's largest export markets, ranking second in 2013 according to TurkStat.

In early 2014, political unrest and demonstrations in Ukraine led to a change in the national government. While the United States and the EU recognised the new government, Russia claimed that that new government was illegitimate and was violating the rights of ethnic Russians living in the Crimean peninsula and elsewhere in Ukraine. Escalating military activities in Ukraine and on its borders, including Russia annexing Crimea and the shooting down of a civilian aircraft resulting in approximately 300 deaths, have combined with Ukraine's very weak economic conditions to create great uncertainty in Ukraine and the global markets. In addition, the United States and the EU have implemented increasingly impactful sanctions against certain Russian entities, persons and sectors, including Russian financial, oil and defense companies, as a result of the conflict. While not directly impacting Turkey's territory, these disputes could materially negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Russian energy supplies.

Turkey has also experienced problems with domestic terrorist and ethnic separatist groups as well as other political unrest within its territory. In particular, Turkey has been in conflict for many years with the People's Congress of Kurdistan, formerly known as the PKK (an organisation that is listed as a terrorist organisation by various states and organisations including Turkey, the EU and the United States). Turkey has from time to time been the subject of terrorist bomb attacks, including bombings in recent years in its tourist and commercial centres in Istanbul, Ankara and various coastal towns and (especially in the southeast of Turkey) attacks against its armed forces. For example, on 1 February 2013, a suicide bomber attacked the U.S. Embassy in Ankara killing himself and others. On 11 May 2013, two car bombs exploded in the Reyhanlı district of the southern province of Hatay, resulting in the deaths of 52 people and significant additional casualties.

Such circumstances have had and could continue to have a material adverse effect on the Turkish economy and/or the Group's business, financial condition and/or results of operations.

Regional Risks – Recent developments in the Middle East and North Africa might create regional volatility affecting the Turkish economy

As noted above, Turkey is located in a region that has been subject to ongoing political and security concerns. Political and economic uncertainty within neighbouring countries, such as Armenia, Georgia, Iran, Iraq and Syria, has been one of the risks associated with investment in Turkish securities. Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Libya, Tunisia, Egypt, Syria, Iraq, Jordan, Bahrain and Yemen. Unrest in those countries might affect Turkey's relationships with its neighbours, have political implications in Turkey or otherwise have a negative impact on the Turkish economy, including through both financial markets and the real economy. For example, the conflict in Iraq could impact Turkey's exports and might increase oil prices and further negatively affect Turkey's current account deficit. Such impacts could occur (*inter alia*) through a lower flow of foreign direct investment into Turkey, capital outflows and/or increased volatility in the Turkish financial markets. In addition, certain sectors of the Turkish economy (such as construction, iron and steel) have operations in (or are otherwise active in) the Middle East and North Africa and may experience negative effects of the upheavals in the region. Any of such circumstances could adversely affect the Group's business, financial condition and/or results of operations.

Emerging Market Risks – The Group is subject to risks associated with doing business in an emerging market

The Group only operates in Turkey and derives almost all of its revenue from activities in Turkey. As a result, the Group's business, results of operations and financial condition are significantly affected by the overall level of economic activity and political stability in Turkey. Despite Turkey undergoing significant political and economic reform in recent years that increased stability and led to economic growth, Turkey is still considered by international investors to be an emerging market. Emerging markets are subject to greater risks than more developed markets and financial turmoil in any emerging market (or global markets generally) could disproportionately disrupt business in other emerging markets as well as causing a decline in the price of an investment in the Notes.

Investors' interest in Turkey might be negatively affected by events in other emerging markets or the global economy in general (for example, the recent global market crisis or monetary policies in the United States). An increase in the perceived risks associated with investing in emerging economies could adversely affect the Turkish economy, and the Notes might be subject to fluctuations in price that may not necessarily be related to economic conditions in Turkey or the financial performance of the Group. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect in which an entire region or class of investment is disfavoured by international investors, Turkey could be adversely affected by negative economic or financial developments in other emerging market countries. While the impact of the recent global financial crisis on Turkey was relatively limited, Turkey has been adversely affected by such contagion effects on a number of occasions in the past, including following the financial crises in 1994 and 2000 to 2001. Similar developments can be expected to affect the Turkish economy in the future, which could, in turn, have an adverse impact on prices of investments in Turkish capital markets issuances such as the Notes.

Combating the Financing of Terrorism – The Financial Action Task Force encourages its members to consider the strategic deficiencies relating to Turkey

The Financial Action Task Force (the "*FATF*") has identified Turkey as a country with deficiencies in its protections against combating the financing of terrorism and requested that Turkey make progress in implementing an action plan to address these deficiencies. In particular, Turkey: (a) was requested to make progress in adequately criminalising terrorist financing and (b) was required, before 23 February 2013, to implement an adequate legal framework for identifying and freezing terrorist assets.

In an effort to ensure compliance with the FATF requirements, new measures to combat the financing of terrorism ("*CFT*") in Turkey were introduced with the entry into force on 16 February 2013 of Law No. 6415 on the Prevention of the Financing of Terrorism (the "*CFT Law*"). In order to address shortcomings identified by the FATF and with a view to achieving compatibility with international standards as outlined under the International Convention for the Suppression of the Financing of Terrorism and annexes thereto, the CFT Law introduced an expanded scope to the financing of terrorism offense (as defined under Turkish anti-terrorism laws). The CFT Law also presented new principles and mechanisms for identifying and freezing terrorist assets and facilitates the implementation of United Nations Security Council decisions, in particular those relating to entities and/or individuals placed on sanction lists. On 31 May 2013, the Regulation on Procedures and Principles Regarding the Application of the Law on the Prevention of the Financing of Terrorism became effective, which regulation provides the procedures and principles for the decision-making, execution and termination of the freezing of assets as well as the management and supervision of frozen assets. In addition, the Council of Ministers' Decree dated 30 September 2013 implementing United Nations Security Council Resolutions 1267, 1988 and 1989 and recent court decisions have further improved Turkey's CFT regime and compliance with the FATF standard on criminalisation of terrorist financing.

On 21 June 2014, "The Financial Crimes Investigation Board General Communique No. 12" (the scope of which consists of rules regarding: (a) the necessary actions to be taken by persons, institutions and organisations that keep assets or records of such assets in accordance with the provisions of applicable law for the enforcement of decisions to freeze assets, and (b) the management of frozen assets in accordance with provisions of applicable law within the scope of the permission granted by Financial Crimes Investigation Board) became effective. As a result, since February

2010, when Turkey made a high-level political commitment to work with the FATF to address its deficiencies, Turkey has made significant progress to improve its CFT regime. Turkey has largely addressed its action plan, including by increasingly criminalising terrorist financing and establishing procedures to identify, freeze and confiscate terrorist assets. The FATF has recently conducted an on-site visit to monitor the process of implementing the required reforms, and actions are continuing to address deficiencies previously identified by the FATF. If the FATF is not satisfied with Turkey's progress, then it might publish a new negative statement about Turkey, which could have an adverse effect on the Group's business, financial condition and/or results of operations.

Earthquakes – Turkey is located in a high-risk earthquake zone

Almost all of Turkey is classified by seismologists as being in a high-risk earthquake zone. On 17 August 1999, an earthquake measuring 7.4 on the Richter scale struck the area surrounding İzmit. On 12 November 1999, another earthquake occurred in the city of Düzce, between Ankara and İstanbul, resulting in significant financial costs to Turkey. More recently, on 8 March 2010, an earthquake measuring 6.0 on the Richter scale struck the eastern province of Elazığ, and in October 2011 an earthquake measuring 7.2 on the Richter scale struck the eastern part of the country, causing significant property damage and loss of life. A significant portion of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone (the zone with the highest level of risk of damage from earthquakes). A number of the properties and business operations of the Group and its customers in Turkey are located in earthquake risk zones.

The Group maintains earthquake insurance but, as such insurance is not generally available in Turkey, does not have the wider business interruption insurance or insurance for loss of profits. The occurrence of a severe earthquake could adversely affect one or more of the Group's facilities, thereby causing an interruption in, and an adverse effect on, the Group's business. In addition, a severe earthquake could harm the Turkish economy in general and/or any of its customers, which could adversely affect the Group's business, financial condition and/or results of operations.

Exchange Rates – The value of the Turkish Lira fluctuates against other currencies

Exchange rates for the Turkish Lira have historically been, and continue to be, highly volatile. Since February 2001 the Central Bank has applied a floating exchange rate policy that has arguably resulted in increased volatility in the value of the Turkish Lira. In 2012, the Turkish PPI increased by 2.5% while during the same year the Turkish Lira appreciated (in nominal terms) against the U.S. Dollar by 6.5%, according to the Central Bank. Also according to the Central Bank, the CPI-based real effective exchange rate increased from 109.63 as of 31 December 2011 to 118.18 as of 31 December 2012, indicating a 7.8% real appreciation.

In 2013, in nominal terms the Turkish Lira depreciated against the U.S. Dollar by 19.73% compared to year-end 2012; *however*, on a real basis, based upon the CPI-based real effective exchange rate declining to 107.0 as of 31 December 2013, there was only a 9.50% real depreciation compared to year-end 2012. In particular, from June 2013 until the end of 2013 the value of the Turkish Lira depreciated against major currencies due to the increased risk perception in global markets regarding the market's expectation of U.S. Federal Reserve reductions in its quantitative easing (and its ultimate decision to do so) and the Taksim Square protests and other political events described above. In order to reduce the volatility of the Turkish Lira, the Central Bank first implemented additional monetary tightening and held intra-day foreign exchange selling auctions, and raised the upper limit of the interest rate corridor. The Turkish Lira continued to decline in value, falling 9.8% in nominal terms against the U.S. Dollar year-to-date through 28 January 2014. In response, the Central Bank significantly increased interest rates on 28 January 2014, after which (though 30 April 2014), the Turkish Lira appreciated against the U.S. Dollar by 9.6%. Due to such improvement, on 22 May 2014, the Central Bank reduced its one-week repo rate 50 basis points to 9.5% (though leaving unchanged its overnight Turkish Lira borrowing rate and its overnight lending rate); *however*, in part due to growing expectations of an increase in interest rates by the U.S. Federal Reserve, the Turkish Lira began depreciating again. As of September 2014, the CPI-based real effective exchange rate increased to 109.41, indicating a 2.3% real depreciation in Turkish Lira compared to December 2013.

Any significant depreciation of the Turkish Lira against the U.S. Dollar or other major currencies, or any actions taken by the Central Bank or Turkish government to protect the value of the Turkish Lira (such as increased interest rates or capital controls) may adversely affect the financial condition of Turkey as a whole, including its inflation rate, and may have a negative effect on the Group's business, financial condition and/or results of operations.

Potential Overdevelopment – Certain sectors of the Turkish economy might have been or become overdeveloped, which might result in a negative impact on the Turkish economy

Certain sectors of the Turkish economy may have been (or may become) overdeveloped, including in particular the construction of luxury residences, shopping centres, office buildings, hotels and other real estate-related projects and various renewable energy-related projects. For example, significant growth in the number of hotels is projected to occur over the coming years in anticipation of a continuing growth in international tourism, which might or might not in fact occur. Any such overdevelopment might lead to a rapid decline in prices of these properties or the failure of some of these projects. Even if this does not occur, the pace of development of such projects might decline in coming years as developers and project sponsors seek to reduce their risk, which might negatively affect the growth of the Turkish economy. Should any of such events occur, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Government Default – The Group has a significant portion of its assets invested in Turkish government debt, making it highly dependent upon the continued credit quality of, and payment of its debts by, the Turkish government

The Group has a significant exposure to Turkish governmental entities, which it is not required to account for in its reserves. As of 30 June 2014, 83% of the Group's total securities portfolio (17% of its total assets and equal to 111% of its shareholders' equity) was invested in securities issued by the Turkish government (78%, 17% and 116%, respectively, as of 31 December 2013). In addition to any direct losses that the Group might incur, a default, or the perception of increased risk of default, by Turkish governmental entities in making payments on their debt or a downgrade in Turkey's credit rating would likely have a significant negative impact on the value of the government debt held by the Group and the Turkish banking system generally and might have a material adverse effect on the Group's business, financial condition and/or results of operations.

Risks Related to the Notes

Unsecured Obligations – The Notes will constitute unsecured obligations of the Bank

The Bank's obligations under the Notes will constitute unsecured obligations of the Bank. The ability of the Bank to pay such obligations will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows, which could be affected by (*inter alia*) the circumstances described in these "Risk Factors."

Effective Subordination – Claims of Noteholders under the Notes will be effectively subordinated to those of certain other creditors, including significant governmental claims

While the Notes will rank equally with all of the Bank's other unsecured and unsubordinated indebtedness, the Notes will be effectively subordinated to the Bank's secured indebtedness and securitisations, if any, to the extent of the value of the assets securing such transactions, and will be subject to certain preferential obligations under Turkish law (as is the case for all Turkish banks, including, without limitation, liabilities that are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by the Bank with the Central Bank, claims that the Central Bank may have against the Bank with respect to certain loans made by it to the Bank and certain "public claims"). Any such preferential claims might reduce the amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Bank and might result in an investor in the Notes losing all or some of its investment.

It is important for investors in the Notes to consider that, in case of the insolvency of the Bank, the Turkish Treasury's reimbursement/subrogation claims relating to the guarantees it provides for debt raised by the Bank are qualified as "public claims" and, as such, are subject to special collection procedures that result in their ranking prior to claims under the Notes and other ordinary claims. As a result, the remaining value of the Bank's assets after repayment of these preferred claims in an insolvency of the Bank might be insufficient to pay investors in the Notes all or any portion of the amounts due to them.

Redemption for Taxation Reasons – The Bank will have the right to redeem the Notes upon the occurrence of certain changes requiring it to pay withholding taxes in excess of the levels, if any, applicable to interest or other payments on the Notes on 23 October 2014

The withholding tax rate on interest payments in respect of bonds issued by Turkish legal entities outside of Turkey varies depending upon the original maturity of such bonds as specified under Decree No. 2009/14592 dated 12 January 2009, which was amended by Decree No. 2010/1182 dated 20 December 2010 and Decree No. 2011/1854 dated 26 April 2011 (together, the "*Tax Decrees*"). Pursuant to the Tax Decrees, with respect to bonds with a maturity of five years or more, the withholding tax rate on interest is 0%. Accordingly, the initial withholding tax rate on interest on the Notes will be 0%. The Bank will have the right to redeem the Notes at their principal amount and accrued but unpaid interest prior to the Maturity Date of the Notes if: (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.2) or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 23 October 2014, on the next Interest Payment Date the Bank would be required to: (i) pay additional amounts as provided or referred to in Condition 9 on account of any Taxes (as defined in Condition 9.1) and (ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the applicable prevailing rates on 23 October 2014, and (b) such requirement cannot be avoided by the Bank taking reasonable measures available to it. Upon such a redemption, the investors in the Notes might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Notes.

This redemption feature is also likely to limit the market value of investments in the Notes at any time when the Bank has the right to redeem them as provided above, as the market value at such time will generally not rise substantially above the price at which the Notes can be redeemed. This may similarly be true in the period before such time when any relevant change in law or regulation is yet to become effective.

Majority Decisions – Decisions of the holders of the required percentage of the Notes bind all Noteholders

The conditions of the Notes will contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions will permit investors in the Notes holding defined percentages of the Notes to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the decision of the deciding group. As a result, decisions might be taken by holders of such defined percentages of the Notes that are contrary to the preferences of any particular Noteholder.

Transfer Restrictions – Transfers of interests in the Notes will be subject to certain restrictions and interests in the Global Certificate can only be held through a clearing system

Although the Notes have been authorised by the CMB pursuant to Decree 32, the Capital Markets Law, the Communiqué on Debt Instruments and other related legislation as debt securities to be offered outside of Turkey and this Prospectus has been approved by the Central Bank of Ireland as described herein, the Notes have not been and are not expected to be registered: (a) under the Securities Act or any applicable state's or other jurisdiction's securities laws or (b) with the SEC or any other applicable state's or other jurisdiction's regulatory authorities. The offering of the Notes (or beneficial interests therein) will be made pursuant to exemptions from the registration requirements of the Securities Act and from other securities laws. Accordingly, reoffers, resales, pledges and other transfers of interests in the Notes will be subject to certain transfer restrictions. Each investor is advised to consult its legal advisers in connection with any such reoffer, resale, pledge or other transfer. See "Subscription and Sale."

Because transfers of interests in the Global Certificate can be effected only through book entries at Clearstream, Luxembourg and/or Euroclear (as applicable) and their respective accountholders, the liquidity of any secondary market for investments in the Global Certificate might be reduced to the extent that some investors are unwilling to invest in notes held in book-entry form in the name of an accountholder in Clearstream, Luxembourg or Euroclear, as applicable. The ability to pledge interests in the Notes may be limited due to the lack of a physical certificate. In the event of the insolvency of Clearstream, Luxembourg or Euroclear or any of their respective accountholders in whose name interests in the Notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Notes might be impaired.

Further Issues – The Bank may issue further notes, which would dilute the Noteholders' share of the total issuance

As permitted by Condition 15, the Bank may from time to time without the consent of the Noteholders create and issue further notes having terms and conditions that are the same as those of the Notes, or the same except for the amount of the first payment of interest, issuance date and/or securities codes, which new notes may be consolidated and form a single series with the outstanding Notes. To the extent that the Bank issues such further notes, the existing Noteholders' share of the total issuance (*e.g.*, for voting) will be diluted.

Enforcement of Judgments – It might not be possible for investors to enforce foreign judgments against the Bank or its management

The Bank is a public joint stock company organised under the laws of Turkey. All of the directors and officers of the Bank reside inside Turkey and all or a substantial portion of the assets of such persons might be, and substantially all of the assets of the Bank are, located in Turkey. As a result, it might not be possible for investors in the Notes to effect service of process upon such persons outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions.

In addition, under the International Private and Procedure Law of the Republic of Turkey (Law No. 5718), a judgment of a court established in a country other than Turkey might not be enforced in Turkish courts in certain circumstances. There is no treaty between the United Kingdom and Turkey providing for reciprocal enforcement of judgments. While Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between Turkey and the United Kingdom with respect to the enforcement of judgments of their respective courts, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United Kingdom by Turkish courts. The same might apply for judgments obtained in other jurisdictions. For further information, see "Enforcement of Judgments and Service of Process."

EU Savings Directive – The Notes might be subject to withholding taxes in circumstances in which the Bank is not obliged to make gross up payments, which would result in investors receiving less interest than expected and could materially adversely affect their return on the Notes

Under EC Council Directive 2003/48/EC on the Taxation of Savings Income (the "*EU Savings Directive*"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State, except that Austria and Luxembourg are required to impose a withholding system in relation to such payments for a transitional period (unless during such period they elect otherwise) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures (for example, a withholding system in the case of Switzerland). In April 2013, the Luxembourg government announced its intention to abolish the withholding system with effect from 1 January 2015 in favour of automatic information exchange under the EU Savings Directive.

On 24 March 2014, the European Council adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the EU Savings Directive to include certain additional types of income, and widen the range of recipients payments to whom are covered by the EU Savings Directive to include certain other types of entity and legal arrangement. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

If a payment were to be made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, then none of the Bank, any Paying Agent or any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Bank will be required to maintain a paying agent that is not located in a Member State of the European Union that will oblige such paying agent to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive.

U.S. Foreign Account Tax Compliance Withholding – FATCA withholding might affect payments on the Notes

The U.S. Foreign Account Tax Compliance Act ("*FATCA*") imposes a new reporting regime and, potentially, a 30% withholding tax with respect to certain payments by financial institutions to: (a) non-U.S. financial institutions that do not enter into an agreement with the U.S. Internal Revenue Service (the "*IRS*") to provide the IRS with certain information in respect of their accountholders and investors or are not otherwise exempt from or in deemed compliance with FATCA and (b) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient for the relevant payor to determine whether such investor is a U.S. person or should otherwise be treated as holding a "United States Account" of such payor. The Bank would likely be classified as a financial institution for these purposes.

The FATCA reporting and withholding regime is being phased in since 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined as of the date of this Prospectus) no earlier than 1 January 2017. This withholding on payments with respect to the Notes is required only if the Notes are significantly modified after the date (the "*Grandfathering Date*") that is six months after the date of filing of final regulations defining the term "foreign passthru payments."

If an amount in respect of such withholding tax were to be deducted or withheld from interest, principal or other payments made in respect of the Notes, then none of the Bank, any Paying Agent or any other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors might receive less interest or principal than expected. Prospective investors should refer to the section "Taxation – U.S. Foreign Account Tax Compliance Act."

Change in Law – The value of the Notes could be adversely affected by a change in English law or administrative practice

The conditions of the Notes are based upon English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the price of interests in the Notes.

Reliance upon Clearing System Procedures – Investors in the Notes will be subject to the rules of the applicable clearing system and their ability to exercise rights relating to the Notes directly may be limited

The Notes will be represented on issue by the Global Certificate, which will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Agency Agreement (see "The Global Certificate"), investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg and their respective accountholders will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests therein only through Euroclear and Clearstream, Luxembourg and their respective direct and indirect accountholders.

To the extent that the Notes are represented by the Global Certificate, the Bank will discharge its payment obligation thereunder by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely upon the procedures of Euroclear and Clearstream, Luxembourg and its accountholders to receive payments under the Notes. The Bank will have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate. Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

No Secondary Market – An active secondary market in respect of the Notes may never be established or may be illiquid and this might adversely affect the price at which an investor could sell the Notes

The Notes will have no established trading market when issued and, although application has been made for the Notes to be listed on the Official List and admitted to trading on the Main Securities Market, such application might not be accepted and/or an active trading market might not develop or, if developed, it might not be sustained. If a market does develop, it might not be very liquid and the Notes might trade at a discount to their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Bank's financial condition. Therefore, investors might not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity might have a severe adverse effect on the market value of the Notes.

Volatile Price– The market price of investments in the Notes might be subject to a high degree of volatility

The market price of investments in the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale by the Group of other debt securities, as well as other factors, including the trading market for notes issued by the Republic of Turkey. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could adversely affect the market price of investments in the Notes without regard to the Bank's financial condition or results of operations.

The market price of investments in the Notes also will be influenced by economic and market conditions in Turkey and, to varying degrees, economic and market conditions in emerging markets generally. Although economic conditions differ in each country, the reaction of investors to developments in one country might cause capital markets in other countries to fluctuate. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to the Turkish economy and resulted in considerable outflows of funds and declines in the amount of foreign investment in Turkey. Crises in other emerging market countries might diminish investor interest in securities of Turkish issuers, including the Bank's, which could adversely affect the market price of investments in the Notes.

Exchange Rate Risks and Exchange Controls – Non-U.S. Dollar investors will be subject to exchange rate risk and the Bank's ability to make payments on the Notes in U.S. Dollars might be affected by exchange controls

The Bank will pay principal and interest on the Notes in U.S. Dollars, which presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency (the "*Investor's Currency*") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. Dollar or revaluation of the Investor's Currency) and the risk that the Turkish government and/or authorities with jurisdiction over the Investor's Currency might impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. Dollar would decrease: (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency-equivalent value of the interest and principal payable on the Notes and (c) the Investor's Currency-equivalent market value of investments in the Notes.

Government and monetary authorities might impose exchange controls that could adversely affect an applicable exchange rate and/or the ability to convert and/or transfer currency. If such occurs, particularly if it directly affects the Bank's payments on the Notes, then any investor in the Notes might receive less interest or principal than expected, or no interest or principal, and/or might receive payment in a currency other than U.S. Dollars. An investor might also not be able to convert (at a reasonable exchange rate or at all) amounts received in U.S. Dollars into the Investor's Currency, which could materially adversely affect the market value of interests in the Notes. There might also be tax consequences for investors of any such currency changes.

Credit Ratings – Credit ratings assigned to the Bank or the Notes may not reflect all risks associated with an investment in the Notes

In addition to the ratings on the Notes provided by Moody's and Fitch, and the ratings on the Bank by Moody's and Fitch, one or more other independent credit rating agencies might assign credit ratings to the Notes and/or the Bank. The ratings might not reflect the potential impact of all risks related to the structure, market and other factors that might affect the value of the Notes. Credit ratings assigned to the Notes and/or the Bank do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to adjustment, revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The initial ratings of the Notes by Moody's and Fitch will not address the likelihood that the principal on the Notes will be prepaid or paid on the scheduled Maturity Date. Such ratings also will not address the marketability of investments in the Notes or any market price. Any adverse change in (or withdrawal of) the Bank's credit ratings might affect the market's perception of the Bank's creditworthiness and might therefore have an adverse effect on the interest rate and/or tenor at which the Bank can obtain funding. Any change in the credit ratings of the Notes and/or the Bank could adversely affect the price that a subsequent purchaser will be willing to pay for investments in the Notes. The significance of each rating should be analysed independently from any other rating.

In general, European-regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction also applies in the case of credit ratings issued by non-EU credit rating agencies unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("*ESMA*") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there might be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings of the Notes is set out on the cover of this Prospectus.

ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Bank is a public joint stock company under the Turkish Commercial Code (No. 6102). Substantially all of the assets of the Bank are located in Turkey. As a result, it might not be possible for investors to effect service of process upon the Bank outside Turkey or to enforce against it in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. In order to enforce such judgments in Turkey, investors should initiate enforcement lawsuits before the competent Turkish courts. In accordance with Articles 50 to 59 of Turkey's International Private and Procedure Law (Law No. 5718), the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey unless:

(a) there is in effect a treaty between such country and Turkey providing for reciprocal enforcement of court judgments,

(b) there is *de facto* enforcement in such country of judgments rendered by Turkish courts, or

(c) there is a provision in the laws of such country that provides for the enforcement of judgments of Turkish courts.

There is no treaty between Turkey and the United Kingdom providing for reciprocal enforcement of judgments. Turkish courts have rendered at least one judgment confirming *de facto* reciprocity between Turkey and the United Kingdom; *however*, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United Kingdom by Turkish courts. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based upon any non-Turkish securities laws.

In addition, the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey if:

(a) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed,

(b) the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey,

(c) the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues or, as the case may be, with an earlier foreign judgment on the same issue and enforceable in Turkey,

(d) the judgment is not of a civil nature,

(e) the judgment is clearly against public policy rules of Turkey,

(f) the judgment is not final and binding with no further recourse for appeal or similar revision process under the laws of the country where the judgment has been rendered, or

(g) the judgment was rendered by a foreign court that has deemed itself competent even though it has no actual relationship with the parties or the subject matter at hand.

Process may be served on the Bank at İşbank's London branch (with an address on the Issue Date of 8 Princes Street London EC2R 8HL, England) in relation to any proceedings in England in connection with the Notes.

USE OF PROCEEDS

The Bank will incur various expenses in connection with the issuance of the Notes, including underwriting fees, legal counsel fees, rating agency expenses and listing expenses. The expenses in connection with the admission of the Notes to the Official List and to trading on the Main Securities Market are expected to amount to approximately €5,190. The Bank will use the proceeds from the issuance of the Notes for general corporate purposes.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables set forth, for the periods indicated, selected historical consolidated financial and other information about the Group. Such financial and other information should be read in conjunction with, and is qualified in its entirety by reference to, the BRSA Financial Statements, "Operating and Financial Review" and other relevant information included elsewhere in (or incorporated by reference into) this Prospectus. The BRSA Financial Statements are presented in Turkish Lira and have been prepared in accordance with BRSA Principles described in more detail in the accounting principles included in the notes to the BRSA Financial Statements included in this Prospectus and in "Presentation of Financial Information."

The BRSA Financial Statements as of and for the: (a) years ended 31 December 2011, 2012 and 2013 have been audited and (b) six-month periods ended 30 June 2014 have been reviewed by KPMG.

	As of 31 December			As of 30 June
	2011	2012	2013	2014
Balance Sheet Data:		*(TL thousands)*		
Cash and balances with the Central Bank	121,109	132,666	345,040	407,747
Financial assets at fair value through profit or loss (net)	150,325	41,169	60,248	72,970
Banks	425,226	440,075	421,304	441,143
Money Market Placements	109,365	199	50	384,414
Financial Assets Available For Sale (Net)	2,316,883	2,882,262	2,973,058	2,999,590
Loans	6,266,956	6,814,219	9,049,098	9,539,501
Factoring Receivables	-	-	-	-
Held To Maturity Investments (Net)	126,955	-	-	-
Investments In Associates (Net)	191,563	211,572	236,634	247,888
Investments In Subsidiaries (Net)	842	847	847	847
Entities Under Common Control (Joint Venture)(Net)	10	10	10	10
Lease Receivables (Net)	28,400	9,432	4,518	1,393
Tangible Assets (Net)	24,224	23,786	24,397	26,177
Intangible Assets (Net)	1,870	2,020	2,249	2,192
Investment Property (Net)	226,805	240,370	222,295	229,842
Tax Assets	17,332	8,629	18,896	9,110
Assets Held-For-Sale And Discontinued Operations (Net)	-	-	-	-
Other assets	125,769	50,062	80,572	70,020
Total Assets	**10,133,634**	**10,857,318**	**13,439,216**	**14,432,844**
Derivative Financial Liabilities Held-for-Trading	48,743	20,997	57,857	37,675
Funds Borrowed	6,785,535	7,029,605	9,125,037	9,472,241
Money Market Balances	1,368,363	1,502,628	1,856,204	2,209,479
Funds	7,894	9,745	5,954	37,640
Miscellanous Payables	148,660	112,830	89,769	94,094
Provisions	104,670	140,173	157,442	199,376
Tax liabilities	17,668	33,207	22,660	44,117
Subordinated Loans	95,000	89,125	106,759	105,859
Total Liabilities	**8,576,533**	**8,940,310**	**11,421,682**	**12,200,481**
Paid-in Capital	800,000	1,100,000	1,300,000	1,500,000
Capital Reserves	49,121	169,673	13,723	90,524
Share Premium	413	388	388	406
Marketable Securities Value Increase Fund	17,160	133,754	4,041	80,424
Tangible Assets Revaluation Differences	31,174	35,157	8,920	9,320
Other Capital Reserves	374	374	374	374
Profit Reserves	300,572	195,793	262,400	315,909
Profit or Loss	310,617	369,263	365,889	255,771
Non-Controlling Interests	96,791	84,273	75,212	70,159
Total Equity	**1,557,101**	**1,919,002**	**2,017,534**	**2,232,363**
Total Liabilities and Equity	**10,133,634**	**10,857,318**	**13,439,216**	**14,432,844**

	2011	2012	2013	For the six month period ended 30 June 2013	2014
Income Statement Data:			*(TL thousands)*		
Interest Income	534,704	613,037	657,490	307,035	399,750
Interest Expense	(174,582)	(188,193)	(175,902)	(77,196)	(131,673)
Net Interest Income	**360,122**	**424,844**	**481,588**	**229,839**	**268,077**
Net Fees and Commissions Income	28,252	26,520	27,867	15,639	13,818
Dividend Income	5,222	6,014	15,715	13,493	11,850
Trading Income (net)	(20,025)	26,309	(24,735)	(4,248)	30,110
Other Operating Income	52,881	32,260	25,541	16,347	43,009
Total Operating Income	**426,452**	**515,947**	**525,976**	**271,070**	**366,864**
Provision for Loan Losses and Other Receivables	(32,234)	(34,595)	(47,230)	(19,680)	(52,653)
Other Operating Expenses	(93,246)	(100,218)	(140,528)	(53,261)	(64,561)
Net Operating Income	**300,972**	**381,134**	**338,218**	**198,129**	**249,650**
Profit/Loss on Equity Method	-	-	-	-	-
Profit/Loss on Continued Operations before Tax	321,889	401,405	370,193	211,318	264,420
Tax Provision for Continued Operations	(63,269)	(76,254)	(75,039)	(37,897)	(50,021)
Net Period Profit/Loss from Continuing Operations	**258,620**	**325,151**	**295,154**	**173,421**	**214,399**
Net Period Profit/Loss	**258,620**	**325,151**	**295,154**	**173,421**	**214,399**

Key Ratios:	As of (or for the year ended) 31 December 2011	2012	2013	As of (or for the six month period ended) 30 June 2014
Net interest margin[(1)(2)]	3.9%	4.6%	4.0%	4.6%
Spread[(3)]	4.2%	4.4%	4.3%	4.2%
Turkish Lira	5.6%	6.6%	5.9%	5.6%
Foreign Currency	3.7%	3.5%	3.6%	3.6%
Cost-to-income ratio[(4)]	21.9%	19.4%	26.7%	17.6%
Free capital ratio[(5)]	13.0%	15.5%	12.9%	13.5%
Non-performing loans to total cash loans	0.4%	0.2%	0.4%	0.2%
Cost to average total assets[(1)(6)]	1.0%	1.0%	1.2%	0.9%
Return on average shareholders' equity excluding minority interest[(1) (7)]	17.6%	18.2%	15.4%	20.1%
Return on average total assets[(1) (8)]	2.8%	3.0%	2.5%	3.1%
Capital Adequacy:				
Tier I regulatory capital/risk-weighted assets and market risk[(9)]	18.8%	19.7%	17.4%	18.1%
Total regulatory capital/risk-weighted assets and market risk[(9)]	18.2%	19.4%	16.8%	19.1%
Other Information:				
Average employees during the period	352	342	335	315

(1) Calculated on quarterly averages.
(2) Consolidated net interest income as a percentage of consolidated average interest-earning assets. Reserves held at the Central Bank have been excluded from interest-earning assets. Trading income is included in the net interest income.
(3) Spread represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities. Average balances are calculated from monthly balances and do not include interest accruals.
(4) "Cost" includes total operating expenses. "Income" includes operating income. Total operating income is net of insurance expense and total operating expense does not include insurance expense.
(5) Total shareholders' equity excluding fixed assets, investment property, investments in equity participations and net NPLs as a percentage of total assets.
(6) Total operating expense does not include insurance expense. Expense items as of and for the six months ended 30 June 2014 are annualised.
(7) Net income for the period as a percentage of average shareholders' equity excluding minority interest.
(8) Net income for the period as a percentage of average total assets.
(9) Calculated in accordance with BRSA regulations.

CAPITALISATION OF THE GROUP

The following table sets forth the total capitalisation of the Group as of the indicated dates. The following financial information has been extracted from the Group's BRSA Financial Statements without material adjustment. This table should be read in conjunction with the BRSA Financial Statements (including the notes thereto) and "Operating and Financial Review" appearing elsewhere in this Prospectus.

	As of 31 December			As of 30 June
	2011	**2012**	**2013**	**2014**
	(TL thousands)			
Capital stock; legal reserves, retained earnings and other equity accounts	1,296,338	1,601,992	1,713,644	2,019,004
Current period net income attributable to equityholders of the Bank	260,763	317,010	303,890	213,359
Total shareholders' equity	**1,557,101**	**1,919,002**	**2,017,534**	**2,232,363**
Long-term debt[1]	5,824,949	6,202,042	7,830,107	8,139,042
Total capitalisation	**7,382,050**	**8,121,044**	**9,847,641**	**10,371,405**

[1] Long-term debt includes funds borrowed (including subordinated loans) with an original maturity over one year.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the six months ended 30 June 2013 and 2014 and the financial years ended 31 December 2011, 2012 and 2013. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Financial Statements for such periods without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and the notes thereto and the other financial information included in (or incorporated by reference into) this Prospectus (including the section entitled "Presentation of Financial Information"). The BRSA Financial Statements for such periods have been prepared in accordance with BRSA regulations as described in "Presentation of Financial Information." For a discussion of current significant differences between the BRSA Financial Statements and IFRS Financial Statements, see Appendix A ("Overview of Significant Differences Between IFRS and BRSA Accounting Principles.")

The BRSA Financial Statements attached hereto or incorporated by reference herein, all of which are in English, were prepared as convenience translations of the corresponding Turkish language BRSA financial statements (which translations the Bank confirms were direct and accurate). The English language BRSA Financial Statements were not prepared for the purpose of their inclusion in (or incorporation by reference into) this Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements." Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Cautionary Statement Regarding Forward-Looking Statements."

The Group's financial condition and results of operations depend significantly upon the macro-economic conditions prevailing in Turkey and prospective investors should consider the factors set forth under "Risk Factors – Risks Related to the Group's Business" and "Risk Factors – Political, Economic and Legal Risks Related to Turkey."

The discussion and analysis of the financial position and results of operations of the Group in this Prospectus are based upon the BRSA Financial Statements. As elsewhere in this Prospectus, the term "Group" is used in this section to denote the Group on a consolidated basis and the term "Bank" in this section indicates that the context refers to the Bank on a stand-alone basis.

Overview

The Group provides a wide range of banking and advisory services, only in Turkey, including corporate banking, investment banking and advisory services. The Group operates in a highly competitive banking market in Turkey. As of 30 September 2014, 50 banks (including domestic and foreign banks but excluding the Central Bank) were operating in Turkey, 33 of which were deposit-taking banks, 13 of which (including the Bank) were development and investment banks and four of which were participation banks, which conduct their business under different legislation in accordance with Islamic banking principles. Of the deposit-taking banks, 18 were private foreign banks, 11 were private domestic banks, three were government-controlled banks and one was under the supervision of the SDIF. The Bank has two branches, one in Ankara and the other in İzmir, as well as its principal İstanbul office.

As of 30 June 2014, the Group's total capital adequacy ratio was 19.1% and its Tier I capital adequacy ratio was 18.1%, both as calculated in accordance with Basel III rules that came into effect on 1 January 2014. See "–Capital Adequacy" below. As of the same date, the Group's shareholders' equity was TL 2,232 million, its liquid asset ratio (being the total amount of cash and balances with banks, money market placements, trading securities and available-for-sale securities *divided by* the Group's total assets) was 27.2%. The Group's net operating income was TL 301 million in 2011, TL 381 million in 2012, TL 338 million in 2013 and TL 250 million for the six months ended 30 June 2014 (TL 198 million for the six months ended 30 June 2013), while its net period profit from continuing operations was TL 261 million in 2011, TL 317 million in 2012, TL 295 million in 2013 and TL 214 million for the six months ended 30 June 2014 (TL 173 million for the six months ended 30 June 2013).

With its domestic Turkish focus, the Group's financial condition and results of operations have been significantly impacted by the Turkish economy, the real GDP of which increased at a compound annual growth rate of 4.4% between 2000 and 2008 according to TurkStat. Real GDP growth slowed to 0.7% in 2008 and then declined by 4.8% in 2009, but significantly rebounded in 2010 (9.2%) and 2011 (8.8%); *however*, real GDP growth slowed to 2.1% in 2012 due in part to governmental efforts to slow the economy and the continuing impact of global macro-economic conditions. Turkey's real GDP grew by 4.0% in 2013 and (compared to the same period in 2013) grew by 3.3% during the six months ended 30 June 2014.

As of 30 June 2014, the Group had total assets of TL 14.4 billion, an increase of 7.4% from TL 13.4 billion as of 31 December 2013, itself a 23.8% increase from TL 10.8 billion as of 31 December 2012 (which represented a 7.1% increase from TL 10.1 billion as of 31 December 2011).

The Bank's loan portfolio grew from TL 6.3 billion as of 31 December 2011 to TL 6.8 billion as of 31 December 2012, TL 9.1 billion as of 31 December 2013 and TL 9.5 billion as of 30 June 2014, a growth rate of 8.7% in 2012, 32.8% in 2013 and 5.4% for the six months ended 30 June 2014. The Group's policy is to comply with the provisioning levels required by law. For additional information on regulatory requirements for provisioning, see "Business of the Group – Loan Classification and Provisioning Policy," "Risk Factors – Banking Regulatory Matters" and "Turkish Regulatory Environment – Loan Loss Reserves." The Bank's NPL ratios were 0.4%, 0.2%, 0.4% and 0.2% as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively (see "Significant Factors Affecting the Group's Financial Condition and Results of Operations – Provisioning for Impaired Loans").

As of 30 June 2014, 91.1% of the Group's performing loans and all of the Group's total borrowings were denominated in foreign currencies, principally U.S. Dollars and Euro.

Significant Factors Affecting the Group's Financial Condition and Results of Operations

The Group's business, financial condition and results of operations depend significantly upon the macro-economic conditions prevailing in Turkey as well as other factors. The impact of these and other potential factors may vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors." The following describes the most significant of such factors since the beginning of 2011.

Turkish Economy

All of the Group's operations (and almost all of its loans) are in Turkey, and its business and results of operations are significantly affected by general economic conditions in Turkey. Accordingly, the Group's results of operations and financial condition have been and will continue to be significantly affected by Turkish political and economic factors, including the economic growth rate, the rate of inflation and fluctuations in exchange and interest rates. The economic contraction in Turkey beginning in 2008 and reaching its peak in 2009 limited lending growth and caused a decline in asset quality in the Turkish banking sector. Starting in 2010 there was a rapid recovery in lending growth and NPL ratios displayed a declining trend both for Turkish financial institutions as a whole and for the Group's operations in particular, although this trend may stabilise. In 2011, the Central Bank increased its funding rates and reserve requirement rates in order to suppress loan growth and moderate the growth of the Turkish economy. In 2012, Basel II took effect and had a similar impact due to the additional capital requirements applying to certain types of credit exposures and other controls imposed under Basel II. After a mild economic slowdown, the Central Bank started to loosen monetary policy in the second half of 2012 and domestic demand started to recover in the first quarter of 2013; *however*, capital inflows have weakened since May 2013 due to uncertainties regarding global monetary policies (particularly those in the United States) and as a result the Central Bank tightened monetary policy in order to support financial stability. The Central Bank continued to tighten its monetary policy with rate increases in June and August 2013 and then, in order to balance the risks associated with the increased volatility in capital flows observed at the end of 2013 due to domestic political concerns, the Central Bank held an interim meeting on 28 January 2014 and announced a significant rate increase. As a result of this tight monetary policy and other measures taken by the BRSA to dampen consumer lending, domestic demand weakened and a significant improvement was observed in the current account deficit in the first eight months of 2014 (falling to US$48.9 billion as compared to US$58.2 billion for the same period of the previous year). On 22 May 2014, the Central Bank decreased the one-week repo rate to 9.5% from 10%, citing the recent decline in uncertainties and the improvement in risk premium indicators. The Central Bank further reduced its one-week repo to 8.25% as of October 2014.

The following table provides certain macro-economic indicators for Turkey, including real GDP, inflation rates and the Central Bank's overnight TL interest rate for each of the indicated periods:

	2009	2010	2011	2012	2013	As of or for the six months ended 30 June 2014[1]
Nominal GDP at current prices (TL millions)	952,559	1,098,799	1,297,713	1,416,798	1,565,181	832,350
Real GDP growth	(4.8)%	9.2%	8.8%	2.1%	4.1%	3.3%
Deficit/surplus of consolidated budget/GDP	(5.5)%	(3.6)%	(1.4)%	(2.1)%	1.2%	(6.5)%
Consumer Price Inflation[2]	6.5%	6.4%	10.5%	6.2%	7.4%	9.5%
Producer Price Inflation[2]	5.9%	8.9%	13.3%	2.5%	7.0%	9.9%
Central Bank overnight TL interest rate, period-end[3]	6.50%	1.50%	5.00%	5.00%	3.50%	8.00%
Central Bank weekly TL repo rate, period-end[3]	NA	6.50%	5.75%	5.50%	4.50%	8.75%
Refinancing rate of the Central Bank, period-end	9.0%	9.0%	12.5%	9.00%	7.75%	12.00%
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. Dollar[4]	0.4%	(2.7)%	(23.3)%	6.5%	(19.7)%	0.37%
CPI-based real effective exchange rate appreciation (depreciation) (2003=100)	1.7%	7.7%	(12.9)%	7.8%	(9.5)%	2.4%
Total gross gold and international currency reserves, period-end (U.S. Dollars, millions)	74,829	85,968	88,340	119,167	131,035	132,552

Sources: TurkStat for nominal GDP at current prices, real GDP growth, inflation, Turkish Ministry of Finance, General Directorate of Public Accounts, for deficit/surplus of consolidated budget and Central Bank for reference overnight interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. Dollar, real effective exchange rate and total gross gold and international currency reserves.

(1) GDP growth, inflation, nominal depreciation of the Turkish Lira against the U.S. Dollar and real effective exchange rate are presented on the basis of the six months ended 30 June 2014 compared against the same period of the previous year.

(2) Annual percentage change of the applicable index (the percentage change of the applicable index in June 2014 is compared to June 2013).

(3) The overnight borrowing rate announced by the Central Bank. Starting from 2010, the Central Bank announces the weekly repo lending rate as the reference rate.

(4) Central Bank buying rates.

Interest Rates

One of the primary factors affecting the Group's profitability is the level of, and fluctuations in, interest rates in Turkey, which in turn influence the return on the Group's securities portfolio and its loan rates. Interest earned and paid on the Group's assets and liabilities reflects, to a certain degree, actual inflation, inflation expectations, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates (with respect to the Group's foreign currency-denominated liabilities, including similar changes in global markets. Although the impact of decreasing interest rates earned on assets has had a direct and material impact on the Group's profitability, and the Group has been further negatively affected by competitive pressures from both the public and private sector banks, the Group has utilised low cost and long-term sources for raising funds, thereby mitigating this competitive pressure.

The Group's strategy is to hedge any interest rate mismatch with derivative instruments and, as a result, the interest rates on the Group's loans and funds are very closely matched. Due to the natural hedge in the Bank's assets and liabilities, as supplemented by such hedges, the Group's existing loan portfolio is not materially affected by changes in interest rates. In addition, 70% of the Group's securities portfolio consisted of floating rate notes and CPI-linked securities as of 30 June 2014; *however* the remaining securities portfolio, consisting of fixed rate notes, might create a negative or positive effect on the Group's equity as a result of changes in market interest rates. In addition, rising interest rates are expected to reduce the value of the Group's existing securities investment portfolio while ultimately being expected to result in increased interest income on additional assets included in this portfolio.

As of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, approximately 89.0%, 91.2%, 86.2% and 85.7% of the Bank's loans and 80.1%, 83.2%, 81.0% and 81.3% of the Bank's interest-earning assets were at floating rates. The fixed/floating composition of the Group's assets and liabilities is mainly determined by general market trends and customer demands. As a result, due to the highly competitive banking environment, the Group's ability to change the naturally established composition of loans and funding base is limited. On the other hand, the Group tries to diversify its securities portfolio in terms of maturity and re-pricing periods in order to balance the duration mismatch of the entire balance sheet.

The Group's interest income is primarily comprised of: (a) interest earned on its loan portfolio (TL 394 million, or 60% of total interest income, in 2013; TL 239 million and 60% in the first six months ended 30 June 2014) and (b) interest earned from its securities portfolio (TL 229 million, or 35% of total interest income, in 2013; TL 146 million and 37% in the first six months ended 30 June 2014). For further information on the Group's securities portfolio, see "-Securities Portfolio."

The Group's primary sources of funding for the periods under review have typically been funds borrowed from DFIs, repurchase ("repo") transactions with the Central Bank and other banks and certain other money market transactions. The Group's cost of funding in relation to repo transactions generally decreases as the Central Bank's rates decrease.

Among the most significant indicators of the movements in interest rates as they affect the Group is the competitive environment. In general, the Bank's net interest margin does not depend upon Turkish Lira interest rates since a significant portion of the Bank's interest earning assets are foreign exchange-denominated. Turkish Lira interest rates do, however, affect the cost of the Bank's daily repo funding. The Central Bank reference overnight interest rate declined from 6.50% as of 31 December 2009, to 1.50% as of 31 December 2010 (at which time the overnight interest rate was no longer linked to the policy rate) in response to the effect of the global economic crisis on banks' liquidity. In August 2011, the rate increased to 5.00% where it remained as of 31 December 2012 before being gradually reduced to 3.50% as of 31 December 2013. In 2014, the overnight interest rate was significantly increased to 10.00% at the Central Bank's interim meeting held on 28 January 2014. As of 30 September 2014, the overnight interest rate was 8.25%. As the duration of the Turkish Lira loan book is relatively short and a majority of the securities portfolio is formed of floating rate notes, the impact of higher Turkish Lira interest rates turns positive in a short period of time.

From 2009 to 2011, net interest margins and spreads in Turkish Lira and foreign currencies were on a decreasing trend due to assets being re-priced with a time-lag compared to liabilities. The decrease in margins was principally due to the moderation of local market conditions (including inflationary pressures), the increases to reserve requirements introduced by the Central Bank (until recently no interest was earned on such reserves; *however*, reserve accounts kept in Turkish Lira may be interest-bearing pursuant to guidelines adopted by the Central Bank from time to time according to the reserve requirement manual issued by the Central Bank on 11 April 2014), the tightening of monetary policy in Turkey over the period and continuing high levels of competition. Although the Central Bank has recently relaxed certain of these measures in light of weakening macro-economic conditions, significant pressure on net interest margins remains despite efforts to re-price assets and liabilities given funding costs and competitive conditions. In 2013, the net interest margin of the Bank was 4.3%, while it was 4.6% in the six months ended 30 June 2014.

As a result of the depreciation in the value of the Turkish Lira (which in 2013 depreciated by 19.7% against the U.S. Dollar compared to year-end 2012; *however*, on a real basis, based upon the CPI-based real effective exchange rate, there was only a 9.5% real depreciation compared to year-end 2012), in July and August 2013, the Central Bank increased the upper band of the interest rate corridor (the lending rate) from 6.50% to 7.25% and then to 7.75% and also announced that there will be no funding to banks via the primary dealer repo facility on additional monetary tightening days. Moreover, in its November 2013 and December 2013 meetings, the Central Bank announced that one month repo auctions were terminated, that the maximum amount of funding via one-week repo was reduced from TL 10 billion to TL 6 billion and that the total amount of funding offered to primary dealer banks was reduced to approximately TL 6.5 billion. In addition to increasing the liquidity of the Turkish Lira, the Central Bank announced, as part of its monetary and exchange rate policy for 2014, that it will increase the funding needs of the financial system via foreign exchange auctions, through changes in reserve option mechanisms and by shortening the maturity of funding. In January 2014, to counter a significant depreciation in the Turkish Lira, the Central Bank held an interim Monetary Policy Committee meeting and increased its overnight Turkish Lira borrowing rate to 8% from 3.5%, its one-week repo rate to 10% from 4.5% and its overnight lending rate to 12% from 7.75%. In the Monetary Policy Committee's April 2014 meeting, the late liquidity window facility lending rate was reduced from 15% to 13.5% (though such rate has little application on market practice). While such increases have resulted in a limited increase in the Group's short-term funding costs, they have also contributed to an increase in rates earned by the Group on its assets and, as a result, have had an immaterial impact on the Group's net interest margin. Following the Central Bank's significant rate increase and the diminishing political uncertainties, the Turkish Lira recovered briefly in early 2014 but has since continued to depreciate due both to domestic matters as well as the growing expectation of rate increases by the U.S. Federal Reserve. Due to the recovery in the Turkish Lira in early 2014 and the decline in political uncertainty, the Central Bank reduced its one-week repo rate from 10% to 9.50% initially, subsequently reduced it further to 8.25%, reduced its overnight borrowing rate from 8.00% to 7.50% and cut the overnight lending rate from 12.00% to 11.25%. As of 30 September 2014, the Turkish Lira had appreciated by 2.73% in nominal terms compared to its historical low level against the U.S. Dollar recorded on January 28, 2014.

Fees and Commissions

Another primary factor affecting the Group's profitability is the level of fees and commissions that it earns. In order to diversify its sources of revenue and obtain income in a capital efficient manner, the Group has been creating new products and incentivising its employees to increase the Group's fee and commission income. The share of net fees and commissions to net operating income has been 6.6%, 5.1%, 5.3% and 3.8%, respectively, for 2011, 2012 and 2013 and the six months ended 30 June 2014.

A significant portion of the Group's fee and commission income is derived from its non-cash loan business and investment banking activities. The Group's investment banking activities are operated by its subsidiary Yatırım Finansman Menkul Değerler A.Ş. ("*Yatırım Finansman*"), a local brokerage house, as described in greater detail below. The Group's ability to increase its fee and commission income is also dependent upon the Bank's corporate finance department, which is active in initial public offerings, bond offerings, mergers and acquisitions and providing advisory services. As with these investment banking revenues, the commissions generated by the Bank's corporate finance department are dependent upon the economic and political environment in Turkey.

A second significant influence on the Group's ability to earn fee and commission income is the level of domestic competition, which has been significant during all macro-economic conditions. Competitive pressures from other banks to reduce fees on loan products and banking services require the Group either to lower its own fees (including waiving them in certain circumstances) in order to be competitive in the applicable business segment and/or to seek to develop new products that can earn additional fees and commissions within a prudent risk management context. The Bank's management believes that this competitive pressure will continue in all of the Group's business segments, particularly as other Turkish banks have increased their focus on fee and commission income as the current environment of low interest rates has impacted net interest income.

Exchange Rates

A very significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly in U.S. Dollars and Euro. As of 30 June 2014, 67% of the Group's total assets and 68% of the Group's total liabilities and shareholder's equity were denominated in foreign currencies.

While the Group monitors its net position in foreign currencies (*i.e.*, the amount by which its foreign currency risk-bearing assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency-denominated assets and liabilities. The foreign currency position limit imposed by the BRSA is defined as an amount *plus/minus* 20% of the total capital used in the calculation of regulatory capital adequacy ratios.

Historically, the Bank has sought to maintain a balance between such assets and liabilities based upon the actual composition of its balance sheet and off-balance sheet positions at any time and, as a general matter, does not enter into any speculative positions. Under BRSA rules, any foreign exchange gains and losses are accounted for together with any gains and losses from the Group's investment in foreign exchange-based derivative financial instruments.

Even though the Group seeks to balance its actual foreign exchange position based upon the composition of its portfolio, the Group's financial results are impacted by changes in foreign exchange rates as the Group translates such assets and liabilities, and interest earned from and paid on those assets and liabilities, into Turkish Lira. The overall effect of exchange rate movements on the Group's results of operations depends upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. For 2011 and 2012, the Group recorded net foreign exchange loss of TL 20 million and gain of TL 26 million, respectively, whereas in 2013 it recorded a loss of TL 25 million. In the six months ended 30 June 2014, the Group recorded net foreign exchange gains of TL 30 million.

Exchange rate movements also affect the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios).

Securities Portfolio

The Group maintains a securities portfolio that primarily includes Turkish government debt securities. The Group's investment securities portfolio amounted to TL 3.1 billion as of 30 June 2014. Of this amount, TL 3.0 billion, or almost 100%, was classified as available-for-sale, with the remainder held in the trading securities portfolio. Interest income derived from the Group's trading and investment securities amounted to TL 146.3 million for the six months ended 30 June 2014, accounting for 36.6% of total interest income for the period (TL 106.3 million and 35% for the six months ended 30 June 2013), TL 229.1 million for 2013, accounting for 35% of total interest income for the year, and TL 248.7 million for 2012, accounting for 41% of total interest income for the year. Since 31 December 2011, the relative size of the Group's securities portfolio has decreased from 25.6% to 21.3% of total assets as of 30 June 2014, as credit demand has recovered in Turkey and asset quality has improved. While the Group benefitted from attractive yields and trading gains from its securities portfolio (in particular on Turkish government securities, including CPI-linked securities) between 2008 and 2010, the yields from securities have generally declined after 2010 as the yield curve (in particular for Turkish government securities) shifted downward during the lower interest rate environment. After May 2013, due principally to global economic development and, to a lesser extent, political uncertainty in Turkey, the yield curve rebounded significantly, showing an almost 400 basis points increase in the short-end and more than 200 basis points in the long-end of the curve. Notwithstanding the changes in interest rates during recent years and specifically the volatility within the most recent quarters, the Group's earnings from its securities portfolio have consistently represented a significant portion of the Group's earnings.

The Bank expects that trading gains will not continue to be as significant going forward and that changes in the percentage of the Group's assets invested in securities will be driven by movements in its loan portfolio and its risk appetite in light of the impact on emerging markets of shifts in monetary policy of the U.S. Federal Reserve and other leading central banks.

Provisioning for Impaired Loans

The Group classifies loans in line with the provisions of the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on 1 November 2006 and amended from time to time thereafter (the "*Regulation on Provisions and Classification of Loans and Receivables*"). Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20%, 50% and 100%, respectively, being required to be set aside for loans and receivables in Groups III, IV and V. See "Turkish Regulatory Environment – Loan Loss Reserves." Specific provisions are allocated by the Group for the total amount of loans and other receivables that are deemed to be non-performing, without being restricted by the minimum legal requirements stated in such regulation. The Bank's policy is to provide fully (at a rate of 100%) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

Provisions that have been made within the current financial year but are released within the same financial year result in a credit to the "Provision Expenses" account in the quarter of release, while the released parts of provisions from previous years are transferred to and recognised in the "Other Operating Income" account. For further information on the Group's internal loan provision requirements, see Part Three, VIII of the Group's 30 June 2014 BRSA Financial Statements attached to this Prospectus.

Critical Accounting Policies

The Group's accounting policies are integral to understanding its results of operations and financial condition presented in the BRSA Financial Statements and the notes thereto. The Group's critical and other significant accounting policies are described in Section Three to the 30 June 2014 BRSA Financial Statements. The preparation of these financial statements requires management to make estimates and assumptions on some events that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for contingencies, litigation and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The Group's actual results may differ from the estimates under different assumptions, judgments or conditions.

The Bank's management believes that the following significant accounting policies require critical judgments or estimates or involve a degree of complexity in application that affects the Group's financial condition and results of operation.

Consolidation of Subsidiaries and Associates

In the consolidated BRSA Financial Statements, the Bank consolidates its subsidiaries that are entities that are controlled by the Bank, but only its financial subsidiaries. The Bank does not consolidate its non-financial subsidiaries in the consolidated BRSA Financial Statements but rather reflects them under "Investments in Associates" and "Investments in Subsidiaries." For a list of the Bank's financial subsidiaries, see "Business of the Group – Subsidiaries and Other Affiliates," and for a list of the Bank's non-financial subsidiaries, see "Business of the Group – Non-Financial

Subsidiaries." See also Appendix A - "Overview of Significant Differences Between IFRS and BRSA Accounting Principles." In determining whether the Bank controls another entity, the Bank's management considers the Bank's power to appoint or remove from office the decision-taking majority of members of board of directors through direct or indirect possession of the majority of the entity's capital irrespective of the requirement of owning a minimum 51% of its capital, or by having control over the majority of the voting right as a consequence of holding privileged shares or of agreements with other shareholders although not owning the majority of capital.

The Bank's subsidiaries and associates that have been consolidated in each of the Group's 2011, 2012, 2013 and 30 June 2014 BRSA Financial Statements are Yatırım Finansman, TSKB Gayrimenkul Yatırım Ortaklığı A.Ş., İş Finansal Kiralama A.Ş. (" *İş Leasing*"), İş Faktoring A.Ş. (" *İş Faktoring*") and İş Girişim Sermayesi Yatırım Ortaklığı A.Ş (" *İş Girişim*").

An associate is an entity in which the Bank owns capital and over which it has a significant influence but no control, whether established at home or abroad. Significant influence is the power to participate in the financial and operating policy of the investee. If the Bank holds qualified shares in the associate, then it is presumed that the Bank has significant influence unless otherwise demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence. A qualified share is a share that directly or indirectly constitutes 10% or more of an entity's capital or voting rights and, irrespective of this requirement, possession of privileged shares giving right to appoint members of the board of directors.

The equity method is an evaluation method of associates by which the book value of the Bank's share in the associate's equity is increased or decreased by the Bank's proportional share in the change in the associate company's equity and the dividend received by the Bank is deducted. The accounting policies of İş Leasing, İş Girişim and İş Faktoring, the associates that are consolidated using the equity method, are not different than the Bank's. Thus, no adjustments of compliance have been applied.

Classification and Measurement of Financial Assets

Financial assets comprise cash, contractual rights to obtain cash or another financial asset from (or to exchange financial instruments with) a counterparty or capital instrument transactions with a counterparty. According to the Bank's management's purpose of holding, financial assets are classified into four groups: "Financial Assets at Fair Value through Profit And Loss," "Financial Assets Available for Sale," "Held-to-Maturity Investments" and "Loans and Receivables."

Cash and Banks. Cash consists of cash in vault, foreign currency cash, money in transit, checks purchased and precious metals. Foreign currency cash and banks are shown in the balance sheet by their amounts converted into Turkish Lira at the foreign exchange rate on the balance sheet date. The carrying values of both the cash and banks are their estimated fair values.

Financial Assets at Fair Value through Profit and Loss. Financial assets classified as "at fair value through profit and loss" include both "financial assets held-for-trading" as well as "financial assets at fair value through profit and loss," both of which are described below.

> *Financial Assets Held-for-Trading*. Financial assets held-for-trading are those acquired for the purpose of generating profit from short-term market fluctuations in prices or similar elements, or securities that are part of a portfolio set up to realise short term profit regardless of the purpose of acquisition.
>
> Financial assets held-for-trading are presented in the balance sheet with their fair values and are subject to valuation at fair values after the initial recognition. In cases where values that form the basis for the fair value do not exist in active market conditions, it is accepted that the fair value is not reliably determined and "amortised cost," calculated by the internal rate of return method, is taken into account as the fair value.
>
> Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. Pursuant to legal regulations, any positive difference between the historical cost and amortised cost of financial assets is recognised under the "Interest Income" account, and in case the fair value of the asset is over the amortised cost, the positive difference is recognised in the "Gains on Securities Trading" account. If the fair value is less than the amortised cost, then the negative difference is recognised under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognised within the framework of the same principles.

Financial Assets at Fair Value through Profit and Loss. Financial assets classified as "at fair value through profit and loss" are financial assets that have not been acquired for trading purposes but were classified as "fair value through profit and loss" at their initial recognition. The recognition of such assets at fair value is accounted similarly to the financial assets held-for-trading described above.

Financial Assets Available for Sale. Financial assets available for sale are non-derivative financial assets other than bank loans and receivables, held-to-maturity investments and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based upon the fair value including transaction costs. The amount arising from the difference between cost and amortised value is recognised through the income statement by using the internal rate of return. If a price does not occur in an active market, then the fair value cannot be reliably determined and "amortised value" is determined as the fair value using the internal rate of return. Unrealised gains and losses arising from changes in fair value of the financial assets available for sale are not recognised in the income statement but rather in the "Marketable Securities Revaluation Fund" until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

Held to Maturity Investments. Held to maturity investments are investments for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including funding ability, and for which there are fixed or determinable payments with fixed maturity, which investments are recognised at fair value at initial recognition. Held to maturity investments with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment. Interest income from held-to-maturity investments is recognised in the income statement as an interest income.

Loans and Receivables. Loans and receivables represent financial assets that are not quoted in an active market and are generated by providing money, goods or services to the debtor with fixed or determinable payments. Loans and receivables are initially recognised at their fair values including settlement costs and are thereafter carried at their amortised cost, which is calculated using the internal rate of return method. Retail and commercial loans that are included in cash loans are accounted at original maturities, based upon their contents.

Foreign currency-indexed loans are valued in Turkish Lira at the exchange rates prevailing at the opening date. Thereafter, increases and decreases in the principal amount of the loan resulting from movements in exchange rates are recognised under the foreign currency income and expense accounts in the income statement. Repayment amounts are calculated using the exchange rate on the repayment date and any exchange differences are also recognised in the foreign currency income and expense accounts in the income statement.

Impairment of Financial Assets

As of each balance sheet date, the Group companies evaluate the carrying amount of their financial assets or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, then the Group determines the related impairment amount.

A financial asset or group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more event(s) after the initial recognition of that asset or group of assets has had an effect on the reliable estimate of the expected future cash flows thereof. Irrespective of their probability of occurrence, no estimated loss that might arise from future events is recognised in the financial statements.

Impairment losses attributable to the "held-to-maturity investments" are measured as the difference between the present values of the estimated future cash flows thereof as discounted using the original interest rate of such asset and the book value of such asset. The related difference is recognised as a loss and decreases the book value of the financial asset. In subsequent periods, to the extent that the impairment loss amount decreases, the previously recognised impairment loss is reversed.

When a decline occurs in the fair value of an "available-for-sale" financial asset, which is accounted at fair value and the increases and decreases in value of which are recognised directly in equity, the accumulated profit or loss that had been recognised directly in equity is transferred from equity and recognised in the period's profit or loss. If, in a subsequent period, the fair value of the related financial asset increases, then the impairment loss is reversed and the amount of reversal is recognised in profit or loss.

"Loans and receivables" are classified and followed in line with the provisions of the Regulation on Provisions and Classification of Loans and Receivables. Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20%, 50% and 100%, respectively, being required to be set aside for loans and receivables in Groups III, IV and V. See "Turkish Regulatory Environment – Loan Loss Reserves." Specific provisions are allocated by the Group for the total amount of loans and other receivables that are deemed to be non-performing, without being restricted by the minimum legal requirements stated in such regulation. The Bank's policy is to provide fully (at a rate of 100%) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

Other than specific provisions, the Bank and the financial institutions affiliated to the Group also provide "general allowances" for loans and other receivables classified in accordance with applicable regulations.

Employee Benefits Obligations

According to the related regulation, the Bank and consolidated Group companies are obligated to pay termination benefits for employees who retire, die, quit for their military service obligations, have been dismissed as defined in the related regulation or (for female employees) have voluntarily quit within one year after the date of their marriage. Within the scope of TAS 19 ("Employee Benefits"), the Bank allocates seniority pay provisions for employee benefits by estimating the present value of the probable future liabilities.

The Bank's mandatory pension fund, of which each employee of the Bank is a member, has been established according to provisional Article 20 of the Social Security Act No. 506. For pension funds such as this, Law No. 5754 published in the Official Gazette dated 8 May 2008 and numbered 26870 decrees that payment obligations to the contributors of bank pension funds, those who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution within three years after the release date of this law; *however*, the initial three-year transfer period was extended for two years (*i.e.* until 8 May 2013) by a Cabinet decision dated 14 March 2011, which was published in the Official Gazette dated 9 April 2011 and numbered 27900. By the Law "Emendating Social Security and General Health Insurance Act," which was published in the Official Gazette dated 8 March 2012 and numbered 28227, the Cabinet's authority to extend this period for two years was raised to four years (*i.e.*, until 8 May 2015), and then the Cabinet extended this period for one year by Cabinet decision dated 8 April 2013 (published in the Official Gazette dated 3 May 2013 and numbered 28636) and then further extended for another year by its decision dated 23 February 2014 (published in the Official Gazette dated 30 April 2014 and numbered 28987). This law also states that:

- through a commission constituted by the attendance of one representative separately from the Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organisation, BRSA and SDIF, one representative from each pension fund and one representative from the organisation employing pension fund contributors, related to the transferred persons, the cash value of the liabilities of a pension fund as of the transfer date will be calculated by considering its income and expenses in terms of the lines of insurance within the context of the related law, and a technical interest rate of 9.8% will be used in the actuarial calculation of the value in cash, and

- after the transfer of the pension fund, the fund's beneficiaries' unfunded social rights and payments will continue to be covered by the pension funds and the employers of the pension fund contributors.

In line with the new law, the Bank had an actuarial valuation made for the aformentioned pension fund as of 31 December 2013 and there was no operational or actuarial liability indicated for the Bank in the actuarial report.

Interest Income and Expenses

Interest income and expenses are recognised on an accrual basis by using the effective interest method (the rate that equalises the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 ("Financial Instruments: Recognition and Measurement"). In accordance with the relevant legislation, realised and unrealised interest accruals on NPLs are reversed and interest income related to these loans is recorded as interest income only when it is collected.

Fee and Commission Income and Expenses

Fee and commission income and expenses are recorded either on an accrual basis or by using the effective interest rate method. Income earned in return for services rendered contractually or due to operations such as the sale or purchase of assets on behalf of a third party are recognised in income accounts in the period of collection.

Foreign Currency Transactions and Translation

Transactions in currencies other than Turkish Lira are recorded by the Group at the rates of exchange prevailing on the dates of such transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date and non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined (the book value of non-monetary items measured in terms of historical cost are not retranslated). As a significant portion of the Group's assets and liabilities are denominated in (or indexed to) foreign currencies, this retranslation may result in volatility in the Group's financial results and financial statements.

Key Performance Indicators

The Group calculates certain ratios in order to measure its performance and compare it to the performance of its main competitors. The following table sets out certain key performance indicators for the Group for the indicated dates/periods, which indicators are (among others) those used by the Group's management to manage its business:

	As of (or for the year ended) 31 December			As of (or for the six month period ended)
Ratios	**2011**	**2012**	**2013**	**30 June 2014**
Net interest margin[(1)(2)]	3.9%	4.6%	4.0%	4.6%
Cost-to-income ratio[(3)]	21.9%	19.4%	26.7%	17.6%
Free capital ratio[(4)]	13.0%	15.5%	12.9%	13.5%
Tier I ratio[(5)]	18.8%	19.7%	17.4%	18.1%
Total capital adequacy ratio[(6)(10)]	18.2%	19.4%	16.6%	19.1%
Coverage ratio[(7)]	100.0%	100.0%	100.0%	100.0%
Return on average total assets[(1)(8)]	2.8%	3.0%	2.5%	3.1%
Return on average shareholders' equity[(1)(8)(9)]	17.6%	18.2%	15.4%	20.1%

(1) Averages calculated using quarter-end amounts.

(2) Consolidated net interest income as a percentage of consolidated average interest-earning assets. Reserves held at the Central Bank have been excluded from interest-earning assets. Trading income is included in net interest income.

(3) "Cost" includes total operating expenses. "Income" includes operating income. Total operating income is net of insurance expense and total operating expense does not include insurance expense.

(4) Total shareholders' equity *minus* fixed assets, investment property, investments in equity participations and net NPLs as a percentage of total assets.

(5) The Tier I ratio is: (a) the "Tier I" capital (*i.e.*, the result of the "core capital," which primarily is comprised by the share capital, profit reserves, profit and provisions for possible losses) as a percentage of (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are based upon BRSA regulations; *however*, such calculations for 2011 would differ if Basel II had then been in effect. See "Capital Adequacy" below, including with respect to calculations made after 1 January 2014.

(6) The total capital adequacy ratio is: (a) the result of "Tier I" capital *plus* "Tier II" capital (*i.e.*, the "supplementary capital," which comprises general provisions, subordinated debt, unrealised gains/losses on available-for-sale assets and revaluation surplus (reduced by certain items such as leasehold improvements and prepaid expenses)) *minus* items to be deducted from capital (the "deductions from capital," which comprises items such as unconsolidated equity interests in financial institutions and assets held-for-resale but held longer than five years) as a percentage of (b) the aggregate of the value at credit risk, value at market risk and value at operational risk. Capital adequacy ratios are based upon BRSA regulations; *however*, such calculations for 2011 would differ if Basel II had then been in effect. See "Capital Adequacy" below, including with respect to calculations made after 1 January 2014.

(7) Total amount of specific provisions as a percentage of NPLs.

(8) For the six months ended 30 June 2014, presented on an annualised basis.

(9) Net income for the period as a percentage of average shareholders' equity.

(10) The capital adequacy ratio for 30 June 2014 is calculated in accordance with Basel III rules, which came into effect on 1 January 2014

Analysis of Results of Operations for the six months ended 30 June 2013 and 2014 and the years ended 31 December 2011, 2012 and 2013

The table below sets out the Group's income statement for the periods indicated.

Consolidated Income Statement Data	2011	2012	2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014
			(TL thousands, except where indicated)		
Interest Income	**534,704**	**613,037**	**657,490**	**307,035**	**399,750**
Interest Income on Loans	288,562	332,958	393,569	184,636	239,200
Interest Received from Reserve Deposits	—	—	—	—	—
Interest Received from Banks	31,249	23,168	20,236	12,299	6,805
Interest Received from Money Market Placements	3,959	6,857	13,997	3,494	7,264
Interest Received from Marketable Securities Portfolio	208,556	248,776	229,151	106,324	146,339
Financial Assets Held-for-Trading	6,450	3,756	1,149	402	1,073
Financial Assets at Fair Value Through Profit and Loss	—	—	—	—	—
Available for-Sale Financial Assets	166,289	237,327	228,002	105,922	145,266
Investments Held-to-Maturity	35,817	7,693	—	—	—
Finance Lease Income	2,144	1,066	306	174	51
Other Interest Income	234	212	231	108	91
Interest Expense	**(174,582)**	**(188,193)**	**(175,902)**	**(77,196)**	**(131,673)**
Interest on Deposits	—	—	—	—	—
Interest on Funds Borrowed	(80,394)	(93,343)	(96,217)	(42,869)	(54,445)
Interest on Money Market Borrowings	(90,231)	(94,733)	(79,638)	(34,280)	(77,211)
Interest on Securities Issued	(3,922)	—	—	—	—
Other Interest Expense	(35)	(117)	(47)	(47)	(17)
Net Interest Income/Expense	**360,122**	**424,844**	**481,588**	**229,839**	**268,077**
Net Fees and Commissions Income/Expense	**28,252**	**26,520**	**27,867**	**15,639**	**13,818**
Fees and Commissions Received	30,350	29,842	32,445	17,012	16,022
Non-cash Loans	5,617	10,115	7,407	3,534	4,346
Other	24,733	19,727	25,038	13,478	11,676
Fees and Commissions Paid	(2,098)	(3,322)	(4,578)	(1,373)	(2,204)
Non-cash Loans	(3)	(1,021)	(858)	(433)	(447)
Other	(2,095)	(2,301)	(3,720)	(940)	(1,757)
Dividend Income	**5,222**	**6,014**	**15,715**	**13,493**	**11,850**
Trading Income (net)	**(20,025)**	**26,309**	**(24,735)**	**(4,248)**	**30,110**
Securities Trading Gains/Losses	(5,030)	2,818	4,391	5,261	182
Derivative Financial Instruments Gains/Losses	(54,430)	48,739	(46,359)	(943)	12,251
Foreign Exchange Gains/Losses	39,435	(25,248)	17,233	(8,566)	17,677
Other Operating Income	**52,881**	**32,260**	**25,541**	**16,347**	**43,009**
Total Operating Income[1]	**426,452**	**515,947**	**525,976**	**271,070**	**366,864**
Provision for Loan Losses and Other Receivables	**(32,234)**	**(34,595)**	**(47,230)**	**(19,680)**	**(52,653)**
Other Operating Expenses	**(93,246)**	**(100,218)**	**(140,528)**	**(53,261)**	**(64,561)**
Net Operating Income[2]	**300,972**	**381,134**	**338,218**	**198,129**	**249,650**
Profit/Loss on Equity Method	20,917	20,271	31,975	13,189	14,770
Profit/Loss On Net Monetary Position	—	—	—	—	—
Profit/Loss On Continuing Operations Before Taxes	**321,889**	**401,405**	**370,193**	**211,318**	**264,420**
Tax Provisions for Continuing Operations	**(63,269)**	**(76,254)**	**(75,039)**	**(37,897)**	**(50,021)**
Provision for Current Income Taxes	(51,040)	(94,286)	(58,256)	(20,532)	(59,125)
Provision for Deferred Taxes	(12,229)	18,032	(16,783)	(17,365)	9,104
Net Profit/Loss From Continuing Operations	**258,620**	**325,151**	**295,154**	**173,421**	**214,399**
Net Profit/Loss	**258,620**	**325,151**	**295,154**	**173,421**	**214,399**
Group's profit/loss	260,763	317,010	303,890	174,592	213,359
Minority shares	(2,143)	8,141	(8,736)	(1,171)	1,040
Earnings/Loss Per Share[1]	0.1235	0.296	0.227	0.116	0.143

(1) Earnings per share are calculated by using the average number of shares of the current period. Presented in Turkish Lira, instead of thousands of Turkish Lira.

Results of Operations for the six months ended 30 June 2013 and 2014

Net Interest Income

The Group's net interest income increased by 17% from TL 230 million in the six months ended 30 June 2013 to TL 268 million in the six months ended 30 June 2014. The Group's net interest margin in the six months ended 30 June 2014 was 4.6% as compared to 4.2% in the six months ended 30 June 2013. This increase was due to a 30% increase in interest income from loans and a 38% increase in interest income from securities. The contribution of the interest income from loans was mainly a result of accelerating volumes, whereas the increase in the interest income from securities resulted from higher interest rates. The Bank's net interest margin in the six months ended 30 June 2014 was 4.6% as compared to 4.4% in the same period of the previous year. The increase in the net interest margin was principally due to higher yields of CPI-linked securities. For further information regarding the factors that resulted in this change in the Group's net interest margins, see "Interest Income" and "Interest Expense."

Interest Income. The Group's interest income, which is primarily derived from interest on loans and interest on securities, increased by 30% to TL 400 million in the six months ended 30 June 2014 from TL 307 million in the six months ended 30 June 2013. This increase was largely driven by the increase in loan volume and higher yields on the Group's portfolio of securities.

For the six months ended 30 June 2014, interest income from loans totaled TL 239.2 million (60% of total interest income) and interest from securities totaled TL 146.4 million (37% of total interest income), compared to TL 184.6 million (60%) and TL 106.3 million (35%), respectively, in the six months ended 30 June 2013. The increase in interest income on loans in 2014 was mainly the result of a stable loan yield but higher loan volume.

With respect to interest on the securities portfolio, the average balance in the six months ended 30 June 2014 (which includes the Group's held-to-maturity investments, financial assets available-for-sale and financial assets held-for-trading) increased to TL 146.4 million as compared to TL 106.3 million in the six months ended 30 June 2013, which was primarily attributable to the yield derived from CPI-linked securities. The average interest rates on securities held increased from 9.0% in the six month period ended 30 June 2013 to 11.6% in the six months ended 30 June 2014.

Interest Expense. The Group's interest expense increased by 70% from TL 77.2 million in the six months ended 30 June 2013 to TL 131.7 million in the six months ended 30 June 2014. This increase was principally due to 27% and 125% year-on-year increases in interest expenses on funds borrowed and on repurchase agreement, respectively. These increases were primarily driven by the general upward trend of funding costs and the depreciation of the Turkish Lira resulting from market uncertainty within Turkey.

Net Fees and Commission Income

The Group's net fees and commission income decreased by 11.6% from TL 15.6 million in the six months ended 30 June 2013 to TL 13.8 million in the six months ended 30 June 2014. This decrease was largely driven by lower brokerage fees generated from Yatırım Finansman.

Dividend Income

The Group's dividend income decreased by 12% from TL 13.5 million in the six months ended 30 June 2013 to TL 11.9 million in the six months ended 30 June 2014. The decrease was primarily due to a decline in dividend income as a result of the sale of a small affiliate in the first half of 2014.

Trading Income/(Loss)(Net)

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading income improved from a loss of TL 4.2 million in the six months ended 30 June 2013 to a gain of TL 30.1 million in the six months ended 30 June 2014. This increase was primarily driven by derivative transactions and foreign exchange revaluation income.

Other Operating Income

The Group's other operating income increased by 163% from TL 16.3 million in the six months ended 30 June 2013 to TL 43.0 million in the six months ended 30 June 2014. A significant component of the increase in the Group's other operating income in the six months ended 30 June 2014 was the release of TL 26 million of provisions due to the re-classification of certain existing NPLs as loans under close monitoring and the cancellation of specific provisions according to BRSA rules. Contribution from operations of the Group's subsidiaries to the Group's other operational income was TL 4.9 million and TL 5.8 million in the six months ended 30 June 2013 and 2014, respectively.

Provisioning for Loans and other Receivables

The Group's provisioning for loans and other receivables increased by 168% from TL 19.7 million in the six months ended 30 June 2013 to TL 52.7 million in the six months ended 30 June 2014. This increase was principally attributable to a TL 22 million provision set aside for tax fine in the first half of 2014, which amount was paid as of 31 July 2014 and transferred to other operating expenses. The remaining increase was principally due to free provisions. The NPL (non-performing loans) ratio decreased to 0.2% as of 30 June 2014 as compared to 0.3% as of 30 June 2013. The total value of new NPLs decreased by 20% from TL 20.6 million in the first six months of 2013 to TL 17.0 million in the first six months of 2014. The Bank's policy is to provide fully (at a rate of 100%) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

	As of 30 June	
	2013	**2014**
	(*TL thousands*)	
Specific Provisions for Loans and Other Receivables	6,674	3,813
Group III Loans and Receivables[(1)]	6,403	3,319
Group IV Loans and Receivables[(1)]	40	—
Group V Loans and Receivables[(1)]	231	494
General Loan Provision Expenses	8,247	6,582
Provision Expenses for Potential Risks	—	—
Marketable Securities Impairment Losses	2,259	1,465
Financial Assets at Fair Value through Profit and Loss	117	—
Financial Assets Available for Sale	2,142	1,465
Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Investments Held-to-Maturity	—	291
Investment in Associates	—	291
Subsidiaries	—	—
Jointly Controlled Entities	—	—
Held-to-Maturity Investments	—	—
Other	**2,500**	**40,502**
Total	**19,680**	**52,653**

(1) For a description of the Loans and Receivables categories, see "Business of the Group – Loan Classification and Provisioning Policy." For additional information on regulatory requirements for provisioning, see "Business of the Group – Loan Classification and Provisioning Policy," "Risk Factors – Banking Regulatory Matters" and "Turkish Regulatory Environment – Loan Loss Reserves."

Other Operating Expenses

The Group's other operating expenses increased by 21% from TL 53.3 million in the six months ended 30 June 2013 to TL 64.6 million in the six months ended 30 June 2014. This change was principally attributable to general administrative costs at one of the Bank's subsidiaries. Expenses related to Gayrimenkul Yatırım Ortaklığı A.Ş. ("*TSKB REIT*") constituted TL 0.3 million and TL 3.8 million of the Group's other operating expenses in the six months ended 30 June 2013 and 2014, respectively. As of 30 June 2014, the Group's cost-to-income ratio was 17.6% (26.7% as of 31 December 2013).

Net Profit from Continuing Operations

The Group's net profit from continuing operations increased by 22% from TL 174.6 million in the six months ended 30 June 2013 to TL 213.4 million in the six months ended 30 June 2014. This increase was primarily due to the 17% increase in net interest income.

For the six months ended 30 June 2014, the Bank's return on average total assets was 3.1% and the return on its average equity was 20.1%, compared to 3.1% and 18.2%, respectively, for the six months ended 30 June 2013.

Results of Operations for the years ended 31 December 2012 and 2013

Net Interest Income

The Group's net interest income increased by 13% to TL 481.6 million in the year ended 31 December 2013 from TL 424.8 million in the year ended 31 December 2012. The Group's net interest margin in 2013 was 4.0% as compared to 4.6% in 2012. The decrease in the net interest margin resulted mainly from the decline in yields on the Group's securities portfolio. For further information regarding the factors that resulted in this change in the Group's net interest margins, see "Interest Income" and "Interest Expense."

Interest Income. The Group's interest income is primarily derived from interest on loans and securities. In 2013, the Group's interest income increased by 7% to TL 657.5 million from TL 613.0 million in 2012. This increase was largely driven by stable yields in the Group's loan portfolio combined with growth in the volume of loans. For 2013, interest income from loans amounted to TL 393.6 million (60% of total interest income) and interest from securities amounted to TL 229.1 million (35% of total interest income), compared to TL 333.0 million (54%) and TL 248.8 million (41%), respectively, in 2012.

Interest Expense. In 2013, the Group's interest expense decreased by 7% to TL 175.9 million from TL 188.2 million in 2012. This decrease in 2013 was in large part due to a 16% year-on-year decrease in interest expenses on funds borrowed under repurchase agreements. This decrease was driven by a decrease in funding costs compared to 2012 as a result of reduced local interest rates and favourable global liquidity conditions.

Net Fees and Commission Income

The Group's net fees and commission income increased by 5% from TL 26.5 million in 2012 to TL 27.9 million in 2013. This increase was driven by a 22% increase in net fees and commissions generated from investment banking activities, which more than setoff a 27% decrease in fees generated from non-cash loans.

Dividend Income

The Group's dividend income increased by 161% from TL 6.0 million in 2012 to TL 15.7 million in 2013. This increase was primarily due to an increase in the dividends distributed by Takasbank (Turkey's settlement and custody service), İş Girişim and İş Portföy Yönetimi A.Ş.

Trading Income/(Loss)(Net)

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading income decreased from a gain of TL 26.3 million in 2012 to a loss of TL 24.7 million in 2013. This decrease was primarily driven by losses on derivative transactions and declines in foreign exchange revaluation income.

Other Operating Income

The Group's other operating income decreased by 21% to TL 25.5 million in 2013 from TL 32.3 million in 2012. The decrease was primarily attributable to a decline in the released provisions.

Provisioning for Loans and other Receivables

In 2013, the Group's provisioning for loans and other receivables increased by 36% to TL 47.2 million from TL 34.6 million in 2012. The increase in 2013 was principally attributable to an increase in specific provisions. The Bank's policy is to provide fully (at a rate of 100%) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

	As of 31 December	
	2012	2013
	(*TL thousands*)	
Specific Provisions for Loans and Other Receivables	613	26,038
Group III Loans and Receivables[1]	59	25,653
Group IV Loans and Receivables[1]	1	46
Group V Loans and Receivables[1]	553	339
General Loan Provision Expenses	18,756	19,336
Provision Expenses for Potential Risks	—	—
Marketable Securities Impairment Losses	1,476	1,856
Financial Assets at Fair Value through Profit and Loss	396	—
Financial Assets Available for Sale	1,080	1,856
Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Held to Maturity Investments	—	—
Investment in Associates	—	—
Subsidiaries	—	—
Jointly Controlled Entities	—	—
Held-to-Maturity Investments	—	—
Other	**13,750**	—
Total	**34,595**	**47,230**

(1) For a description of the Loans and Receivables categories, see "Business of the Group – Loan Classification and Provisioning Policy."

Other Operating Expenses

In 2013, the Group's other operating expenses increased by 40% to TL 140.5 million from TL 100.2 million in 2012. The increase in 2013 was primarily attributable to impairment expenses of TSKB REIT.

Net Profit from Continuing Operations

The Group's net profit from continuing operations in 2013 decreased by 4% to TL 303.9 million from TL 317.0 million in 2012. The decrease in 2013 was in large part due to one-off losses such as foreign exchange losses and impairment expenses of assets.

For 2013, the Bank's return on average total assets was 2.5% and the return on its average equity was 15.4%, compared to 3.0% and 18.2%, respectively, for 2012.

Results of Operations for the years ended 31 December 2011 and 2012

Net Interest Income

The Group's net interest income increased by 18% to TL 424.8 million in 2012 from TL 360.1 million in 2011. The Group's net interest margin in 2012 was 4.6% as compared to 3.9% in 2011. These increases were primarily due to a decrease in funding costs. Accordingly, higher funding costs were offset by higher interest income generated from loans resulting from the upward shift in interest rates. For further information regarding the factors that resulted in this change in the Group's net interest margins, see "Interest Income" and "Interest Expense."

Interest Income. The Group's interest income is primarily derived from interest on loans and securities. In 2012, the Group's interest income increased by 15% to TL 613.0 million from TL 534.7 million in 2011. This increase was largely driven by a 15% year-on-year growth in interest income on loans, which was mainly the result of volume growth and slightly higher yields in the loan portfolio. For 2012, interest income from loans amounted to TL 332.9 million (54% of total interest income) and interest from securities amounted to TL 248.7 million (41% of total interest income), compared to TL 288.5 million (54%) and TL 208.5 million (39%), respectively, in 2011.

With respect to interest on the Group's securities portfolio, the average balance of this portfolio (which includes the Group's held-to-maturity investments, financial assets available-for-sale and financial assets held-for-trading) in 2012 increased to TL 2.8 million as compared to TL 2.4 million in 2011 and the average interest rates on securities held increased from 9.4% in 2011 to 9.8% in 2012.

Interest Expense. In 2012, the Group's interest expense increased by 7.8% to TL 188.2 million from TL 174.5 million in 2011. This increase was in large part due to a 16% year-on-year increase in interest expenses on funds borrowed under repurchase agreements. This increase was driven by increases in both average balances and funding costs compared to 2011.

Net Fees and Commission Income

The Group's net fees and commission income decreased by 6% from TL 28.2 million in 2011 to TL 26.5 million in 2012. This decrease was driven by decline in the brokerage revenues of Yatırım Finansman.

Dividend Income

The Group's dividend income increased by 15% from TL 5.2 million in 2011 to TL 6.0 million in 2012. This increase was primarily due to small investments by the Group.

Trading Income/(Loss)(Net)

The Group's trading income is comprised of three components: securities trading, derivative transactions and foreign exchange income. The Group's trading income increased from a loss of TL 20.0 million in 2011 to a gain of TL 26.3 million in 2012. This increase was primarily driven by securities trading and foreign exchange income.

Other Operating Income

The Group's other operating income decreased by 39% to TL 32.3 million in 2012 from TL 52.9 million in 2011. The decrease in 2012 was primarily attributable to a decline in gains in the valuation of TSKB REIT's fixed assets.

Provisioning for Loans and other Receivables

In 2012, the Bank's provisioning for loans and other receivables increased by 7% to TL 34.6 million from TL 32.2 million in 2011. The increase in 2012 was principally attributable to a 160% and 25% increase, respectively, in the free and general provisions of the Bank, which more than offset a 93% decrease in its specific provisions. The Bank's policy is to provide fully (at a rate of 100%) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

The following table shows the Group's provisioning for loans and other receivables as of the indicated dates.

	As of 31 December	
	2011	2012
	(*TL thousands*)	
Specific Provisions for Loans and Other Receivables	8,203	613
Group III Loans and Receivables[(1)]	6,713	59
Group IV Loans and Receivables[(1)]	1	1
Group V Loans and Receivables[(1)]	1,489	553
General Loan Provision Expenses	14,952	18,756
Provision Expenses for Potential Risks	—	—
Marketable Securities Impairment Losses	3,784	1,476
Financial Assets at Fair Value through Profit and Loss	1,672	396
Financial Assets Available for Sale	2,112	1,080
Impairment Losses on Investments in Associates, Subsidiaries, Jointly Controlled Entities and Held to Maturity Investments	—	—
Investment in Associates	—	—
Subsidiaries	—	—
Jointly Controlled Entities	—	—
Held-to-Maturity Investments	—	—
Other	**5,295**	**13,750**
Total	**32,234**	**34,595**

(1) For a description of the Loans and Receivables categories, see "Business of the Group – Loan Classification and Provisioning Policy."

Other Operating Expenses

In 2012, the Group's other operating expenses increased by 8% to TL 100.2 million from TL 93.2 million in 2011. The increase in 2012 was primarily attributable to a 10% increase in the personnel expenses that constituted 63% of the Group's other expenses.

Net Profit from Continuing Operations

The Group's net profit from continuing operations in 2012 increased by 22% to TL 317.0 million from TL 260.8 million in 2011. The increase was in large part due to the increase in the net interest income.

For 2012, the Bank's return on average total assets was 3.0% and the return on its average equity was 18.2%, compared to 2.8% and 17.6%, respectively, for 2011.

Segmental Analysis

The primary business line of the Group is banking and advisory services, with other principal business lines including real estate appraisal, a real estate investment trust and brokerage. These business lines are further divided into various sub-business lines based upon business activities as described under "Business of the Group – Business Activities." Under its Banking Services business lines, there are three sub-business lines: corporate banking (including project finance), investment banking and advisory services. For accounting purposes, however, the Group reports its business in its BRSA Financial Statements under three segments: Corporate Banking, Investment Banking and Others. The Bank's results make up the large majority of the results for these three segments, with the remainder being contributed by the Bank's financial subsidiaries. For a list of the activities undertaken by the Bank's financial subsidiaries, see "Business of the Group – Subsidiaries and Other Affiliates." The Bank does not consolidate the results of its non-financial subsidiaries in the Group's consolidated BRSA Financial Statements on a line-by-line basis and so these results do not appear in the segmental data included therein.

Non-financial subsidiaries are reflected under the "Investments in Associates" and "Investments in Subsidiaries" items in the consolidated BRSA Financial Statements. Non-financial associates and subsidiaries whose equity securities are traded in an active stock exchange are reflected on financial statements with their fair value prices taking into consideration their quoted market prices at the stock exchange. Associates and subsidiaries whose equity securities are not traded in an active stock exchange are recorded at their cost on the acquisition date and these assets are reflected on the financial statements with their acquisition cost less impairment losses, if any. For a list of the Bank's non-financial subsidiaries as of 30 June 2014, see "Business of the Group– Subsidiaries and Other Affiliates."

The following tables set forth certain information regarding the Group's business segments as of the indicated dates:

	As of (or for the six months ended) 30 June 2014			
	Corporate Banking	Investment Banking	Other	Total
		(TL thousands)		
Net Interest Income	160,293	113,720	(5,936)	268,077
Net Fees and Commissions Income	4,388	313	9,117	13,818
Other Income	25,782	13,623	61,686	101,091
Other Expense	(35,754)	(11,701)	(71,111)	(118,566)
Profit Before Tax	154,709	115,955	(6,244)	264,420
Tax Provision	—	—	—	(50,021)
Net Profit				**214,399**
Group's Profit/Loss	—	—	—	213,359
Non-Controlling Interests	—	—	—	1,040
Segment Assets	9,477,441	3,876,889	829,769	14,184,099
Investment in Associates and Subsidiaries	—	—	248,745	248,745
Total Assets	**9,477,441**	**3,876,889**	**1,078,514**	**14,432,844**
Segment Liabilities	9,833,995	1,657,542	708,944	12,200,481
Shareholders' Equity	—	—	2,232,363	2,232,363
Total Liabilities and Shareholders' Equity	**9,833,995**	**1,657,542**	**2,941,307**	**14,432,844**

	As of (or for the year ended) 31 December 2013			
	Corporate Banking	Investment Banking	Other	Total
		(TL thousands)		
Net Interest Income	292,135	187,960	1,493	481,588
Net Fees and Commissions Income	8,001	2,348	17,518	27,867
Other Income	7,614	—	130,512	138,126
Other Expense	(72,444)	(31,637)	(173,307)	(277,388)
Profit Before Tax	235,306	158,671	(23,784)	370,193
Tax Provision	—	—	—	(75,039)
Net Profit				**295,154**
Group's Profit/Loss	—	—	—	303,890
Non-Controlling Interests	—	—	—	(8,736)
Segment Assets	9,000,617	3,353,574	847,534	13,201,725
Investment in Associates and Subsidiaries	—	—	237,491	237,491
Total Assets	**9,000,617**	**3,353,574**	**1,085,025**	**13,439,216**
Segment Liabilities	8,905,217	1,859,560	656,905	11,421,682
Shareholders' Equity	—	—	2,017,534	2,017,534
Total Liabilities and Shareholders' Equity	**8,905,217**	**1,859,560**	**2,674,439**	**13,439,216**

	As of (or for the year ended) 31 December 2012			
	Corporate Banking	Investment Banking	Other	Total
		(TL thousands)		
Net Interest Income	242,277	188,244	(5,677)	424,844
Net Fees and Commissions Income	10,185	1,751	14,584	26,520
Other Income	7,010	10,375	72,197	89,582
Other Expense	(58,668)	(23,464)	(57,409)	(139,541)
Profit Before Tax	200,804	176,906	23,695	401,405
Tax Provision	—	—	—	(76,254)
Net Profit	—	—	—	**325,151**
Group's Profit/Loss	—	—	—	317,010
Non-Controlling Interests	—	—	—	8,141
Segment Assets	6,792,868	3,068,682	783,339	10,644,889
Investment in Associates and Subsidiaries	—	—	212,429	212,429
Total Assets	**6,792,868**	**3,068,682**	**995,768**	**10,857,318**
Segment Liabilities	6,718,858	1,540,142	679,316	8,938,316
Shareholders' Equity	—	—	1,919,002	1,919,002
Total Liabilities and Shareholders' Equity	**6,718,858**	**1,540,142**	**2,598,318**	**10,857,318**

	As of (or for the year ended) 31 December 2011			
	Corporate Banking	Investment Banking	Other	Total
		(TL thousands)		
Net Interest Income	212,926	151,398	(4,202)	360,122
Net Fees and Commissions Income	5,029	4,128	19,095	28,252
Other Income	14,389	48	64,583	79,020
Other Expense	(57,232)	(26,924)	(61,349)	(145,505)
Profit Before Tax	175,112	128,650	18,127	321,889
Tax Provision	—	—	—	(63,269)
Net Profit/Loss from Continuing Operations	—	—	—	**258,620**
Group's Profit/Loss	—	—	—	260,763
Non-Controlling Interests	—	—	—	(2,143)
Segment Assets	6,295,356	3,249,863	396,000	9,941,219
Investment in Associates and Subsidiaries	-	-	192,415	192,415
Total Assets	**6,295,356**	**3,249,863**	**588,415**	**10,133,634**
Segment Liabilities	6,490,125	1,807,516	278,892	8,576,533
Shareholders' Equity	—	—	1,557,101	1,557,101
Total Liabilities and Shareholders' Equity	**6,490,125**	**1,807,516**	**1,835,993**	**10,133,634**

Financial Condition

The tables below set forth the Group's balance sheet data as of the indicated dates.

	As of 31 December			As of 30 June
	2011	2012	2013	2014
		(TL thousands)		
ASSETS				
Cash and Balances with the Central Bank	**121,109**	**132,666**	**345,040**	**407,747**
Financial Assets At Fair Value Through Profit And Loss (Net)	**150,325**	**41,169**	**60,248**	**72,970**
Trading Financial Assets	150,325	41,169	60,248	72,970
Public Sector Debt Securities	84,339	8,486	8,717	16,190
Share Certificates	15,239	2,581	988	709
Derivative Financial Assets Held-for-Trading	45,353	23,243	40,687	45,834
Other Marketable Securities	5,394	6,859	9,856	10,237
Banks	**425,226**	**440,075**	**421,304**	**441,143**
Money Market Placements	**109,365**	**199**	**50**	**384,414**
Interbank Money Market Placements	102,102	—	—	—
Borsa İstanbul Money Market Placements	335	—	50	384,410
Receivables from Reverse Repurchase Agreements	6,928	199	—	4
Financial Assets Available For Sale (Net)	**2,316,883**	**2,882,262**	**2,973,058**	**2,999,590**
Share Certificates	26,532	38,527	51,029	29,610
Public Sector Debt Securities	1,996,538	2,470,030	2,329,304	2,462,511
Other Marketable Securities	293,813	373,705	592,725	507,469
Loans	**6,266,956**	**6,814,219**	**9,049,098**	**9,539,501**
Loans	6,266,956	6,814,219	9,049,098	9,539,501
Loans to Risk Group of the Bank	184,614	235,062	290,027	238,285
Other	6,082,342	6,579,157	8,759,071	9,301,216
Non-Performing Loans	27,698	15,624	37,386	17,094
Specific Provisions (-)	(27,698)	(15,624)	(37,386)	(17,094)
Held To Maturity Investments (Net)	**126,955**	—	—	—
Investments In Associates (Net)	**191,563**	**211,572**	**236,634**	**247,888**
Accounted for Under the Equity Method	190,472	210,046	234,988	246,533
Unconsolidated Associates	1,091	1,526	1,646	1,355
Non-Financial Investments	1,091	1,526	1,646	1,355
Investments In Subsidiaries (Net)	**842**	**847**	**847**	**847**
Entities Under Common Control (Joint Venture) (Net)	**10**	**10**	**10**	**10**
Unconsolidated	10	10	10	10
Non-Financial Subsidiaries	10	10	10	10
Lease Receivables (Net)	**28,400**	**9,432**	**4,518**	**1,393**
Finance Lease Receivables	29,577	9,758	4,573	1,492
Unearned Income (-)	(1,177)	(326)	(55)	(99)
Tangible Assets (Net)	**24,224**	**23,786**	**24,397**	**26,177**
Intangible Assets (Net)	**1,870**	**2,020**	**2,249**	**2,192**
Goodwill	1,005	1,005	1,005	1,005
Other	865	1,015	1,244	1,187
Investment Property (Net)	**226,805**	**240,370**	**222,295**	**229,842**
Tax Assets	**17,332**	**8,629**	**18,896**	**9,110**
Current Tax Asset	1,668	2,986	—	1,086
Deferred Tax Asset	15,664	5,643	18,896	8,024
Assets Held-For-Sale and Discounted Operations	—	—	—	—
Other Assets	**125,769**	**50,062**	**80,572**	**70,020**
Total Assets	**10,133,634**	**10,857,318**	**13,439,216**	**14,432,844**

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	(*TL thousands*)			
LIABILITY & EQUITY				
Derivative Financial Liabilities Held-for-Trading	**48,743**	**20,997**	**57,857**	**37,675**
Funds Borrowed	**6,785,535**	**7,029,605**	**9,125,037**	**9,472,241**
Money Market Balances	**1,368,363**	**1,502,628**	**1,856,204**	**2,209,479**
Interbank Money Market Takings	420,609	267,449	—	—
Borsa Istanbul Money Market Takings	—	—	251,313	249,552
Funds Provided Under Repurchase Agreements	947,754	1,235,179	1,604,891	1,959,927
Funds	**7,894**	**9,745**	**5,954**	**37,640**
Borrower Funds	7,894	9,745	5,954	37,640
Miscellaneous Payables	**148,660**	**112,830**	**89,769**	**94,094**
Lease Payables	—	6	—	—
Finance Lease Payables	2	8	—	—
Deferred Finance Lease Expenses (-)	(2)	(2)	—	—
Provisions	**104,670**	**140,173**	**157,442**	**199,376**
General Loan Loss Provision	58,491	77,247	96,583	103,165
Reserves for Employee Benefits	5,859	8,986	8,676	10,021
Other Provisions	40,320	53,940	52,183	86,190
Tax Liability	**17,668**	**33,207**	**22,660**	**44,117**
Current Tax Liability	17,668	33,207	22,660	44,117
Subordinated Loans	**95,000**	**89,125**	**106,759**	**105,859**
Shareholders' Equity	**1,557,101**	**1,919,002**	**2,017,534**	**2,232,363**
Paid-in Capital	800,000	1,100,000	1,300,000	1,500,000
Capital Reserves	49,121	169,673	13,723	90,524
Share Premium	413	388	388	406
Marketable Securities Value Increase Fund	17,160	133,754	4,041	80,424
Tangible Assets Revaluation Differences	31,174	35,157	8,920	9,320
Other Capital Reserves	374	374	374	374
Profit Reserves	300,572	195,793	262,400	315,909
Legal Reserves	97,975	125,052	158,444	175,765
Statutory Reserves	47,510	60,277	75,641	75,641
Extraordinary Reserves	152,167	7,544	24,993	61,181
Other Profit Reserves	2,920	2,920	3,322	3,322
Profit or Loss	310,617	369,263	365,889	255,771
Prior Years' Profit/Loss	49,854	52,253	61,999	42,412
Current Year Profit/Loss	260,763	317,010	303,890	213,359
Non-controlling interests	96,791	84,273	75,522	70,159
Total Liabilities and Equity	**10,133,634**	**10,857,318**	**13,439,216**	**14,432,844**

Assets

As of 30 June 2014, the Group had total assets of TL 14.4 billion, a 7% increase from TL 13.4 billion as of 31 December 2013. The increase was largely due to a 5.4% increase in loans.

Cash and Balances with the Central Bank

As of 30 June 2014, the amount of the Group's cash and balances with the Central Bank was TL 407.8 million, an 18.2% increase compared to TL 345.0 million as of 31 December 2013. The Group started to hold higher levels of foreign exchange-denominated reserves due to utilising the Reserve Option Mechanism, which gives Turkish banks the option to hold foreign exchange or gold reserves in place of a fraction of their Turkish Lira reserve requirements.

Loans and Leasing Receivables

Loans and advances to customers represent the largest component of the Group's assets. As discussed below, there are several important characteristics of the Group's loan portfolio, including diversification based upon sector, type of borrower, maturity and currency. In the medium term, the Bank plans to focus on infrastructure, renewable energy, energy and resource efficiency, sustainable tourism, PPPs (mostly in healthcare and education sectors) and SME loans. During the medium term, the Bank aims to maintain its market share while improving its profitability, asset quality and cost efficiency and sustaining efficient capital. See "Business of the Group – Strategy."

As of 30 June 2014, the Group had loans and leasing receivables net of allowance for possible losses of TL 9.5 billion (66.1% of total assets), an increase of 5% compared to TL 9.0 billion (67.3%) as of 31 December 2013 (TL 6.8 billion and 62.4%, respectively, as of 31 December 2012 and TL 6.3 billion and 62.1%, respectively, as of 31 December 2011). The Group's portfolio of cash total loans and advances to customers, less allowance for possible losses, increased by 5% as of 30 June 2014 compared to year-end 2013, which itself reflected a 33% increase compared to year-end 2012 after having increased by 9% in 2012. The increases in 2012 and 2013 were driven mainly by the growth in foreign currency-denominated loans, largely in energy-related loans. In 2013 and 2012, when the impact of the depreciation in foreign exchange is excluded, the increase in foreign currency-denominated loans diminishes to 10% and increases to 14%, respectively.

In addition to loans, the Group had outstanding as of 30 June 2014 guarantees amounting to TL 0.9 billion and letters of credit amounting to TL 0.5 billion (TL 1.0 billion and TL 0.4 billion, respectively, as of 31 December 2013).

As of 31 December 2013, the average effective interest rates charged to borrowers on loans were 4.2% for U.S. Dollars, 3.8% for Euros and 9.4% for Turkish Lira (4.3%, 3.8% and 10.3% and 4.1%, 4.9% and 13.1% as of 31 December 2012 and 2011, respectively).

Sector of Loans. The following table shows the distribution of the Group's loan portfolio by sector as of the dates indicated:

	As of 31 December					
	2011		2012		2013	
	Amount	%	Amount	%	Amount	%
	(*TL thousands, except percentages*)					
Agriculture	**19,069**	**0.30%**	**12,024**	**0.18%**	**5,309**	**0.06%**
Industry	**4,066,107**	**64.59%**	**4,285,975**	**62.81%**	**5,587,415**	**61.71%**
Mining and Quarrying	—	0.00%	33,040	0.48%	77,713	0.86%
Manufacturing	1,551,389	24.64%	1,674,822	24.54%	1,967,666	21.73%
Electricity, Gas, Water	2,514,718	39.95%	2,578,113	37.78%	3,542,036	39.12%
Construction	**257,553**	**4.09%**	**254,382**	**3.73%**	**106,350**	**1.17%**
Services	**1,923,968**	**30.56%**	**2,243,414**	**32.88%**	**3,211,837**	**35.48%**
Wholesale and Retail Trade	25,488	0.40%	184,403	2.70%	23,876	0.26%
Hotel and Restaurant Services	223,635	3.55%	210,008	3.08%	271,558	3.00%
Transportation and Communication	516,441	8.20%	414,890	6.08%	577,717	6.38%
Financial Institutions	972,878	15.45%	1,090,997	15.99%	1,330,129	14.69%
Real Estate and Rental Services	105,743	1.68%	294,651	4.32%	906,372	10.01%
Self-Employed Services	5,691	0.09%	2,341	0.03%	18,966	0.21%
Educational Services	31,317	0.50%	12,419	0.18%	13,819	0.15%
Health and Social Services	42,775	0.68%	33,705	0.49%	69,400	0.77%
Other	**28,659**	**0.46%**	**27,856**	**0.41%**	**142,705**	**1.58%**
Performing Loans	**6,295,356**	**100.00%**	**6,823,651**	**100.00%**	**9,053,616**	**100.00%**
Leasing Receivables	28,400		9,432		4,518	
Non-performing Loans	27,698		15,624		37,386	
Total Loans and Advances to Customers	**6,323,054**		**6,839,275**		**9,091,002**	
Allowance for Loan Losses	27,698		15,624		37,386	
Net Loans and Advances to Customer	**6,295,356**		**6,823,651**		**9,053,616**	

Currency of Loans. As of 31 December 2013, foreign currency risk-bearing loans comprised 93% of the Group's loan portfolio (of which U.S. Dollar- and Euro-denominated obligations were the most significant), compared to 97% as of 31 December 2012 and 98% as of 31 December 2011.

The following table sets out an analysis by currency of the exposure of the Group's loan portfolio (including interest and other accruals) as of the dates indicated:

	As of 31 December					
	2011		2012		2013	
	(TL thousands, except percentages)					
Cash Loans						
Turkish Lira	**132,301**	**2.11%**	**242,169**	**3.55%**	**576,184**	**6.37%**
Foreign Currency[1]	**6,134,655**	**97.89%**	**6,572,050**	**96.45%**	**8,472,914**	**93.63%**
U.S. Dollars	3,392,297	54.13%	3,663,902	53.77%	4,914,340	54.31%
Euro	2,742,143	43.76%	2,908,148	42.68%	3,558,574	39.33%
Other	215	0.00%	—	—	—	—
Total Cash Loans	**6,266,956**	**100.00%**	**6,814,219**	**100.00%**	**9,049,098**	**100.00%**
Non-cash Loans						
Letters of Guarantee	**689,477**	**54.00%**	**635,768**	**53.00%**	**1,015,387**	**70.00%**
Turkish Lira	278,215	22.00%	286,530	**24.00%**	505,921	**35.00%**
Foreign Currency	411,262	32.00%	349,238	**29.00%**	509,466	**35.00%**
Acceptance Credits	**3,333**	**0.00%**	—	—	—	—
Turkish Lira	—	—	—	—	—	—
Foreign Currency	3,333	0.00%	—	—	—	—
Letters of Credit	**555,929**	**44.00%**	**572,564**	**47.00%**	**438,033**	**30.00%**
Turkish Lira	—	—	—	—	—	—
Foreign Currency	555,929	44.00%	572,564	47.00%	438,033	30.00%
Other Guarantee	**20,240**	**2.00%**	**4,225**	—	—	—
Turkish Lira	20,240	2.00%	4,225	—	—	—
Foreign Currency	—	—	4,225	—	—	—
Total Non-cash Loans	**1,268,979**	**100.00%**	**1,212,557**	**100.00%**	**1,453,420**	**100.00%**
Total Loans	**7,535,935**	**100.00%**	**8,026,776**	**100.00%**	**10,502,518**	**100.00%**

(1) Foreign currency loans include foreign currency indexed loans.

In 2013, the growth of the loan volume increased due to a recovery in domestic demand; *however*, since the second half of 2013, credit growth started to decelerate as a result of the tight monetary policies and diminishing domestic demand curbed by the policies implemented by the Central Bank.

Securities Portfolio

The Group's securities portfolio comprises trading securities (*i.e.*, debt and equity securities that the Group principally holds for the purpose of short-term profit taking, which are reflected on the balance sheet as "financial assets at fair value through profit or loss") and investment securities (*i.e.*, held-to-maturity securities and available-for-sale securities). The Group also enters into purchases (or sales) of securities under agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price (*i.e.*, "repos"). Securities sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the related security portfolio as appropriate. The Group's portfolio of marketable securities consists primarily of Turkish government securities (including bonds, treasury bills and eurobonds) denominated in Turkish Lira, U.S. Dollars and Euro.

As of 31 December 2013, the size of the Group's aggregate securities portfolio increased by 3.0% to TL 3.0 billion from TL 2.9 billion as of 31 December 2012, which in turn increased 17.4% from TL 2.5 billion as of 31 December 2011. In 2012 and 2013, the Bank continued to change the composition of the asset side of the balance sheet in favour of the loan portfolio in order to meet the increasing demand for loans arising from the continued growth in GDP. In the first six months of 2014, the aggregate securities portfolio increased by only 1.0% from year-end 2013, reflecting that the Bank's management believes that its asset allocation between loans and securities is at an appropriate level given current market conditions.

As of 30 June 2014, the Group's securities portfolio constituted 21% of the Group's total assets, compared to 22% as of 31 December 2013 (27% and 26%, respectively, as of 31 December 2012 and 2011). The Bank's management's strategy is to seek to maintain the size of the Group's securities portfolio within the range of 20% to 25% of the Group's total assets.

Pursuant to market practice, the Group pledges securities to acquire funding under security repurchase agreements. The securities so pledged amounted to TL 0.9 billion as of 30 June 2014, TL 1.2 billion as of 31 December 2013, TL 1.3 billion as of 31 December 2012 and TL 1.3 billion as of 31 December 2011, comprising 31%, 44%, 50% and 56%, respectively, of the Group's securities portfolio on such dates. Such securities are included in the tables in this section. The remaining repurchase agreements are used to fund other Turkish Lira-denominated assets such as Turkish Lira-denominated loans and money market transactions.

The following tables set out breakdowns of securities (on a book-value basis) held by the Group as of the dates indicated:

	As of 31 December			As of 30 June
	2011	**2012**	**2013**	**2014**
		(TL thousands)		
Held-to-maturity portfolio	126,955	—	—	—
Available-for-sale portfolio	2,316,883	2,882,262	2,973,058	2,999,590
Trading portfolio	104,972	17,926	19,561	27,136
Total securities	**2,548,810**	**2,900,188**	**2,992,619**	**3,026,726**

	As of 31 December			As of 30 June
	2011	**2012**	**2013**	**2014**
		(TL thousands)		
Turkish Lira-denominated securities	1,977,051	2,424,806	2,614,553	2,657,035
Foreign currency-denominated and indexed securities	571,759	475,382	378,066	369,691
Total securities	**2,548,810**	**2,900,188**	**2,992,619**	**3,026,726**

	As of 31 December			As of 30 June
	2011	**2012**	**2013**	**2014**
		(TL thousands)		
Turkish government debt securities(1)	2,207,832	2,478,516	2,338,021	2,478,701
Other marketable debt securities	299,207	380,564	602,581	517,706
Equity shares	41,771	41,108	52,017	30,319
Total securities	**2,548,810**	**2,900,188**	**2,992,619**	**3,026,726**

(1) Government debt securities include government bonds, treasury bills and eurobonds.

Investment Portfolio. As noted above, investment securities comprise held-to-maturity securities and available-for-sale securities. Held-to-maturity securities are financial assets with fixed or determinable payments and fixed maturities that the Group intends and has the ability to hold to maturity. Available-for-sale securities are financial assets that are not held-for-trading purposes or held-to-maturity. Available-for-sale instruments include certain debt and equity investments. The Group classifies investment securities depending upon the intention of management at the time of the purchase thereof, though such can be re-classified if the intention of management later changes.

As of 30 June 2014, the size of the Group's investment portfolio increased by 1% to slightly above TL 3.0 billion from slightly below TL 3.0 billion as of 31 December 2013, itself an increase of 3% from TL 2.9 billion as of 31 December 2012, which itself was an increase of 17% from TL 2.5 million as of 31 December 2011. These increases in the Group's investment portfolio were driven by the Group's strategy to seek to keep between 20% and 25% of its assets in its securities portfolio in order to adhere to its developmental banking mission while maintaining an appropriate asset and liquidity balance.

As of 30 June 2014, the Group did not hold debt securities of any one issuer that (in the aggregate) had a book value in excess of 10% of the Group's shareholders' equity, other than securities issued by the Turkish government. As of such date, the Group's TL 2.5 billion of Turkish government securities represented 111% of the Group's shareholders' equity.

Held-to-Maturity Portfolio. The Group's portfolio of held-to-maturity securities consists principally of Turkish Lira-denominated Turkish government bonds and treasury bills, foreign private sector bonds and corporate eurobonds. As of 31 December 2011, the Group's Turkish government debt securities portfolio amounted to TL 126,955 thousand, which represented 100% of its held-to-maturity portfolio. The securities held as of 31 December 2011 matured in the first quarter of 2012 and, as of 31 December 2012 and 2013 and 30 June 2014, the Group did not choose to hold any securities in its held-to-maturity portfolio due to the liquidity position of the Bank.

Available-for-Sale Portfolio. The Group's portfolio of available-for-sale securities consists of Turkish government bonds and treasury bills, Turkish private sector bonds and eurobonds, foreign eurobonds and equity shares. The following table sets out certain information relating to the Group's portfolio of available-for-sale securities as of the dates indicated:

	As of 30 June 2014	
	(TL thousands, except percentages)	
Turkish government debt securities[1]	2,462,511	82%
Other marketable debt securities[2]	507,469	17%
Equity shares	29,610	1%
Total available-for-sale portfolio	**2,999,590**	**100%**

	As of 31 December					
	2011		2012		2013	
	(TL thousands, except percentages)					
Turkish government debt securities[1]	1,996,538	86%	2,470,030	86%	2,329,304	78%
Other marketable debt securities[2]	293,813	13%	373,705	13%	592,725	20%
Equity shares	26,532	1%	38,527	1%	51,029	2%
Total available-for-sale portfolio	**2,316,883**	**100%**	**2,882,262**	**100%**	**2,973,058**	**100%**

(1) Government debt securities include government bonds, treasury bills and eurobonds.
(2) Includes private sector debt securities and mutual funds.

As of 31 December 2013, the size of the Group's available-for-sale securities portfolio increased by 3% to TL 2,973,058 thousand from TL 2,882,262 thousand as of 31 December 2012, itself an increase of 24.4% as compared to TL 2,316,883 thousand as of 31 December 2011. In 2012 and 2013, the Bank's management chose to increase the Bank's securities portfolio due to the prevailing market conditions and the asset growth strategy of the Bank. As of 30 June 2014, the size of the Group's available-for-sale portfolio increased by a further 0.9% to TL 3.0 billion as a result of the Bank's strategy of maintaining its securities portfolio around the 20 to 25% security-to-asset ratio.

The average interest rates on the Group's available-for-sale securities portfolio as of 30 June 2014 were: (a) for Turkish Lira-denominated securities, 10.22% (9.51% and 9.04%, respectively, for the years ended 31 December 2013 and 2012), (b) for U.S. Dollar-denominated securities, 6.77% (6.73% and 6.49%, respectively, for the years ended 31 December 2013 and 2012), and (c) for Euro-denominated securities, 5.54% (5.45% and 5.36%, respectively, for the years ended 31 December 2013 and 2012).

Trading Portfolio. As noted above, trading securities are debt and equity securities that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments under Turkish law. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets, whereas all trading derivatives in a net payable position (negative fair value) are reported as trading liabilities. The Group's portfolio of trading securities only comprises Turkish government debt.

After initial recognition, securities that are classified as held-for-trading are measured at estimated fair value. Changes in the estimated fair value are included in the Group's BRSA Financial Statements of income included elsewhere in this Prospectus within gains less losses from securities. In determining estimated fair value, trading securities are valued at the last trade price (if quoted on an exchange (*e.g.,* Borsa İstanbul)). When market prices are not available, fair value is determined by the internal rate of return method.

The following tables set out a breakdown of the Group's trading portfolio as of the dates indicated:

	As of 30 June 2014	
	(TL thousands, except percentages)	
Turkish government debt securities[1]	16,190	60%
Other marketable debt securities	10,237	38%
Equity shares	709	2%
Total trading portfolio	**27,136**	**100%**

	As of 31 December					
	2011		2012		2013	
	(TL thousands, except percentages)					
Turkish government debt securities[1]	84,339	80%	8,486	47%	8,717	45%
Other marketable debt securities	5,394	5%	6,859	38%	9,856	50%
Equity shares	15,239	15%	2,581	14%	988	5%
Total trading portfolio	**104,972**	**100%**	**17,926**	**100%**	**19,561**	**100%**

(1) Government debt securities include government bonds, treasury bills and eurobonds.

As of 31 December 2013, the size of the Group's trading securities portfolio increased by 9% to TL 19,561 thousand from TL 17,926 thousand as of 31 December 2012, itself a decrease of 83% as compared to TL 104,972 thousand as of 31 December 2011. The portfolio increased by a further 39% to TL 27,136 thousand as of 30 June 2014. The changes in the trading securities portfolio are attributable to the actions taken by the Group to benefit from price or rate changes and to meet demand from clients.

The average interest rate on the Group's trading securities portfolio as of 30 June 2014 was 10.91% (10.61% and 8.79%, respectively as of 31 December 2013 and 2012) for Turkish Lira-denominated securities. The Group did not have any U.S. Dollar-denominated or Euro-denominated securities as of 30 June 2014 or 31 December 2013 (the average interest rate on the Group's trading securities portfolio for U.S. Dollar-denominated securities was 7.00% as of 31 December 2012).

Liabilities

As of 30 June 2014, the Group had total liabilities of TL 12.2 billion, an increase of 7% from TL 11.4 billion as of 31 December 2013. This increase was primarily attributable to a 4% increase in the funds borrowed to support loan growth.

As of 30 June 2014, the Group had TL 2.2 billion in funding through repos and TL 9.6 billion in borrowings.

Shareholders' Equity

As of 30 June 2014, the Group's shareholders' equity amounted to 15.5% of the Group's total assets, compared to 15.0% as of 31 December 2013. Both retained profit and TL 80 million of mark-to-market gains from available-for-sale investments in the six months ended 30 June 2014 contributed to the increase in shareholders' equity. Total shareholders' equity was TL 1.6 billion, TL 1.9 billion, TL 2.0 billion and TL 2.2 billion as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

Off-Balance Sheet Arrangements

The aggregate amount of off-balance sheet arrangements, comprising guarantees, letters of credit and similar obligations, totaled TL 1.4 billion as of 30 June 2014 and the same amount as of 31 December 2013. Additional information regarding the Group's off-balance sheet arrangements is set forth in "-Contingencies and Commitments" below.

Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the guidelines adopted by the Basel Committee on Banking Regulations and Supervision

Practices of the Bank for International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures (commitment and contingencies). In accordance with these guidelines, each of the Bank and the Group must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio.

Within the context of the implementation of the Basel III framework in Turkey, on 1 January 2014, the Regulation on Equities of Banks published in the Official Gazette No. 26333 dated November 1, 2006 (the "*2006 Equity Regulation*") regarding the capital of the banks through the end of 2013 was replaced by the 2013 Equity Regulation. Under the 2013 Equity Regulation, Tier I capital is divided into core Tier I capital and additional Tier I capital. In connection with such classification, the regulation amending the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, which also entered into effect on 1 January 2014, introduced new ratios for the evaluation of capital adequacy. Under the provisions of these amendments, the minimum required total capital ratio remains at 8% while the core capital adequacy ratio and Tier I capital adequacy ratio are 4.5% and 6%, respectively. A regulation amending the 2013 Equity Regulation, which revises the principles of write-down mechanisms in relation to Tier I and Tier II instruments and amends the composition of Tier II instruments, was published in the Official Gazette on 6 September 2014. Each of the Bank and the Group currently satisfies the capital requirements of the BRSA.

As of 30 June 2014 and 31 December 2013, 2012 and 2011, the Group's total capital adequacy ratio was 19.1%, 16.6%, 19.4% and 18.2%, respectively (18.8%, 18.2%, 20.4% and 19.1%, respectively, for the Bank). The Bank intends to maintain its (and the Group's) capital ratios in excess of those required by both Turkish law and internal risk limits determined by Board of Directors (see "Risk Management").

The following table sets out information on the Group's capital and its capital adequacy ratios as of the indicated dates; *it being understood* that: (a) such capital adequacy levels for 2011 would be different if calculated on the basis of Basel II, which became applicable as of 1 July 2012 and thus is reflected in the calculations as of 31 December 2012 and 2013, and (b) the calculations for 30 June 2014 are made in accordance with Basel III.

	As of 31 December			**As of 30 June**
	2011	**2012**	**2013**	**2014**(1)
	(*TL thousands, except percentages*)			
Paid-in capital	800,000	1,100,000	1,300,000	1,500,000
Paid-in capital inflation adjustments	374	374	374	374
Profit reserves	300,572	195,793	262,400	315,909
Profit	310,617	369,263	365,889	255,771
Tier I Capital (I)	1,537,565	1,782,340	2,009,466	2,222,394
Tier II Capital (II)	141,613	190,483	138,282	145,215
Deductions (III)	(190,867)	(210,420)	(235,344)	(24,904)
Own Funds (I+II-III)	1,488,311	1,762,403	1,912,404	2,342,705
Risk Weighted Assets (including market and operational risk)	9,923,983	9,069,812	11,540,660	12,290,310
Capital Ratios:(2)				
Tier I Ratio	18.8%	19.7%	17.4%	18.1%
Total Capital Adequacy Ratio(3)	18.2%	19.4%	16.6%	19.1%

(1) As of 1 January 2014, capital is calculated within the scope of the "Regulation on Measurement and Evaluation of Capital Adequacy Ratios of Banks"as amended by the "Regulation Amending Regulation on Measurement and Evaluation of Capital Adequacy Ratios of Banks" published in the Official Gazette no. 28756 dated 5 September 2013"

(2) Calculated in accordance with BRSA regulations; *however*, calculations for 2011 would differ if Basel II had then been in effect.

(3) The Group's own funds as a percentage of its risk-weighted assets.

The increases in the Group's capital in each of these periods represented the growth in the Group's retained earnings.

Non-Financial Subsidiaries

As of 30 June 2014, the non-financial subsidiaries of the Bank were TSKB Gayrimenkul Değerleme A.Ş., TSKB Gayrimenkul Danışmanlık A.Ş. (which is currently in liquidation), Terme Metal Sanayi ve Ticaret A.Ş., Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. and Sürdürülebilir Danışmanlık A.Ş. The following tables set forth certain information regarding these non-financial subsidiaries. For a discussion of the differences between the BRSA Financial

Statements and the IFRS Financial Statements, see Appendix A ("Overview of Significant Differences Between IFRS and BRSA Accounting Principles.")

These non-financial subsidiaries are not consolidated in the consolidated BRSA Financial Statements; *however*, they are shown under the "Investments in Associates" and "Investments in Subsidiaries" line items at their book values in the consolidated BRSA Financial Statements. If dividends are received from these non-financial subsidiaries, then such dividends are reflected in the applicable period's income statement of the consolidated BRSA Financial Statements.

TSKB Gayrimenkul Değerleme A.Ş.

	As of (or for the year ended) 31 December			As of (or for the six month period ended) 30 June	
	2011	2012	2013	2013	2014
			(TL thousands)		
Total Assets	6,958	9,281	10,972	9,371	10,753
Total Liabilities	1,808	2,162	2,577	1,699	1,588
Profit/(loss) for the period	1,739	2,568	2,177	1,454	1,665

TSKB Gayrimenkul Danışmanlık A.Ş.

	As of (or for the year ended) 31 December			As of (or for the six month period ended) 30 June	
	2011	2012	2013	2013	2014
			(TL thousands)		
Total Assets	424	574	559	540	565
Total Liabilities	73	57	--	--	--
Profit/(loss) for the period	32	(215)	(7)	(23)	13

Sürdürülebilir Danışmanlık A.Ş.

	As of (or for the year ended) 31 December			As of (or for the six month period ended) 30 June	
	2011	2012	2013	2013	2014
			(TL thousands)		
Total Assets	314	322	373	284	311
Total Liabilities	38	13	40	47	26
Profit/(loss) for the period	36	33	31	(65)	(46)

Terme Metal Sanayi ve Ticaret A.Ş.

	As of (or for the year ended) 31 December			As of (or for the six month period ended) 30 June	
	2011	2012	2013	2013	2014
			(TL thousands)		
Total Assets	18,690	11,339	13,980	12,692	14,776
Total Liabilities	15,097	7,822	10,439	8,945	11,250
Profit/(loss) for the period	575	14	24	230	(15)

Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş.

	As of (or for the year ended) 31 December			As of (or for the six month period ended) 30 June	
	2011	2012	2013	2013	2014
			(TL thousands)		
Total Assets	8,430	11,776	10,946	11,700	10,283
Total Liabilities	398	1,683	141	100	99
Profit/(loss) for the period	152	(1,059)	(1,670)	(876)	(639)

Liquidity and Funding

The Group's principal sources of funding are loans from developmental organisations, of which a total of approximately 75% is provided by the World Bank and the European Investment Bank. As of 30 June 2014, 94% (92% as of 31 December 2013) of the Group's foreign currency-denominated borrowings (excluding repo transactions) were sourced from international banks and DFIs. For its other funding, the Bank's strategy has been largely to utilise money market funds (including repos), bilateral borrowings and syndicated loans, although this approach is subject to change depending upon market opportunities and changes in prevailing rates and other funding sources. For further discussion on the Group's risk management policies relating to funding, see, "Risk Management – Liquidity and Funding."

As of 30 June 2014, the Group's total foreign currency-denominated borrowings constituted 68% of its consolidated assets (70% as of 31 December 2013). 91% of the Bank's long-term funds were guaranteed by the Turkish Treasury as of 30 June 2014. Development and investment banks (such as the Bank) are exempt from reserve requirements for their funding guaranteed by the Turkish Treasury.

The tables below set out the Group's principal sources of funding as of the dates indicated:

	As of 30 June 2014		
	TL	**Foreign Currencies**	**Total**
		(TL thousands)	
Funds Borrowed	75,526	9,502,574	9,578,100
Repos and Money Market Funds	1,991,249	218,230	2,209,479

	As of 31 December 2011			As of 31 December 2012			As of 31 December 2013		
	TL	**Foreign Currencies**	**Total**	**TL**	**Foreign Currencies**	**Total**	**TL**	**Foreign Currencies**	**Total**
					(TL thousands)				
Funds Borrowed	23,763	6,856,972	6,880,735	142,819	6,975,911	7,118,730	74,275	9,157,521	9,231,796
Repos and Money Market Funds	1,190,401	177,962	1,368,363	1,265,318	237,310	1,502,628	1,609,973	246,231	1,856,204

The Group's loans constituted in aggregate approximately 78.5%, 80.8%, 79.6% and 80.2% of its total liabilities as of 30 June 2014 and 31 December 2013, 2012 and 2011, respectively. As of 30 June 2014, the Group's loans amounted to TL 9.6 million, an increase of 3.8% from TL 9.2 million as of 31 December 2013, itself an increase of 3.5% from TL 7.1 million as of 31 December 2012 (TL 6.8 billion as of 31 December 2011).

For tables setting out the maturity structure of the Group's loans with a breakdown of the source of loans for the six months ended 30 June 2014 and the years ended 31 December 2011, 2012 and 2013, see Note II.3.a in Section Five of the Group's BRSA Financial Statements attached hereto.

The remaining sources of funds for the Group are repos and money market funds, which accounted for 16.6%, 17.6%, 16.7% and 18.7% of the Group's total liabilities as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

The tables below set out the Group's funding from banks and other institutions with regard to the kind of institution that provides the funding as of the dates indicated:

	As of 30 June 2014	
	TL	**Foreign Currencies**
	(TL thousands)	
Funds borrowed from financial institutions and organisations	—	8,755,359
Funds borrowed from the domestic banks and institutions	75,526	251,469
Funds borrowed from foreign banks, institutions and funds	—	389,887
Subordinated Loans	—	105,859
Total	**75,526**	**9,502,574**

	As of 31 December					
	2011		2012		2013	
	TL	Foreign Currencies	TL	Foreign Currencies	TL	Foreign Currencies
	(TL thousands)					
Funds borrowed from financial institutions and organisations	—	6,221,735	—	6,591,998	—	8,437,131
Funds borrowed from the domestic banks and institutions.....	10,006	226,584	142,819	90,711	74,275	271,197
Funds borrowed from foreign banks, institutions and funds...	13,757	313,653	—	204,077	—	342,434
Subordinated Loans	—	95,000	—	89,125	—	106,759
Total...	**23,763**	**6,856,972**	**142,819**	**6,975,911**	**74,275**	**9,157,521**

The Bank's short-term funding, including syndicated loans, bilateral loans and money market transactions, represented 6.2% of its outstanding funding base as of 30 June 2014. The table below sets out the Group's funds borrowed based upon their maturity as of the dates indicated:

	As of 31 December						As of 30 June 2014	
	2011		2012		2013			
	TL	Foreign Currencies	TL	Foreign Currencies	TL	Foreign Currencies	TL	Foreign Currencies
	(TL thousands)							
Short-term (1 year or less).....	23,763	540,037	142,819	198,531	74,275	388,941	75,526	588,630
Medium and Long-term	—	6,316,935	—	6,777,380	—	8,768,580	—	8,913,944
Total	**23,763**	**6,856,972**	**142,819**	**6,975,911**	**74,275**	**9,157,521**	**75,526**	**9,502,574**

Short-term borrowings from foreign banks principally include syndicated and bilateral loans along with money market transactions. Details of the Group's short-term borrowings as of 30 June 2014 (all of which with maturity dates before the date of this Prospectus have since been repaid in full) are as follows:

Outstanding Principal	Final Maturity
€2.8 million bilateral loan	1 July 2014
$2.1 million bilateral loan	1 July 2014
€18.0 million bilateral loan	1 July 2014
€4.0 million bilateral loan	1 July 2014
$7.5 million bilateral loan	1 July 2014
$3.5 million bilateral loan	1 July 2014
$20.0 million bilateral loan	1 July 2014
$10.0 million bilateral loan	1 July 2014
$9.0 million bilateral loan	1 July 2014
$11.0 million bilateral loan	1 July 2014
TL 10.0 million bilateral loan	1 July 2014
TL 15.1 million bilateral loan	2 July 2014
TL 10.1 million bilateral loan	3 July 2014
TL 10.0 million bilateral loan	4 July 2014
TL 14.1 million bilateral loan	1 July 2014
TL 16.2 million bilateral loan	23 December 2014
€3.3 million bilateral loan	23 December 2014
$10.5 million bilateral loan	23 December 2014
€7.0 million bilateral loan	23 December 2014
€86.4 million syndicated loan	7 July 2014
$15.1 million syndicated loan	7 July 2014

Many of the Group's financings include provisions permitting the applicable creditors to require the accelerated repayment of the applicable indebtedness, including as a result of a breach of a financial or other covenant or the occurrence of a change of control. The Group monitors its compliance with its obligations under its financing arrangements in order to seek to avoid any such acceleration.

As of the date of this Prospectus, the Bank's management believes that the Bank's and the Group's liquidity is sufficient for its present requirements for at least the next 12 months from the date of this Prospectus.

Contingencies and Commitments

Guarantees. The Group offers its customers products such as guarantees and letters of credit to meet its customers' needs for commercial banking services, frequently in connection with the customers' export and import activities. These products do not appear on the Group's balance sheet. For the breakdown of contingencies and commitments, see the Group's BRSA Financial Statements attached hereto.

As of 30 June 2014, the Group had issued letters of credit amounting to TL 493 million and guarantees amounting to TL 945 million.

The table below sets forth the Group's total off-balance sheet guarantees and sureties as of the indicated dates.

	As of 31 December			As of 30 June
	2011	2012	2013	2014
		(*TL thousands*)		
Letters of guarantee	689,477	635,768	1,015,387	945,008
Acceptance credits	3,333	—	—	—
Letters of credit	555,929	572,564	438,033	493,368
Other guarantees[(1)]	20,240	4,225	—	—
Total	**1,268,979**	**1,212,557**	**1,453,420**	**1,438,376**

(1) Includes endorsements.

Derivatives. The Group enters into forward, swap and option transactions to provide hedging services for itself and its clients. The table below sets forth the Group's total derivative transactions, by currency, as of the dates indicated.

	As of 30 June 2014					
	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
			(*TL thousands*)			
Forward foreign exchange contracts	17,204	26,841	44,045	16,876	26,984	43,860
Currency swaps	227,792	981,681	1,209,473	254,969	874,634	1,129,603
Interest rate swaps	24,192	1,314,502	1,338,694	24,192	1,314,502	1,338,694
Currency options	273,247	267,860	541,107	256,417	280,286	536,703
Interest rate options	—	4,054	4,054	—	4,054	4,054
Others	—	74,763	74,763	—	—	—

	As of 31 December 2013					
	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
			(*TL thousands*)			
Forward foreign exchange contracts	213,289	81,192	294,481	19,461	283,362	302,823
Currency Swaps	195,646	427,251	622,897	33,050	595,548	628,598
Interest rate swaps	24,696	1,230,314	1,255,010	24,696	1,230,314	1,255,010
Currency options	187,344	205,442	392,786	183,644	209,840	393,484
Interest rate options	—	9,245	9,245	—	9,245	9,245
Others	—	—	—	—	—	—

	As of 31 December 2012					
	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
	(*TL thousands*)					
Forward foreign exchange contracts	55,432	182,456	237,888	55,189	182,440	237,629
Currency swaps	37,968	318,374	356,342	14,070	336,020	350,090
Interest rate swaps	—	822,937	822,937	—	822,937	822,937
Currency options	15,734	43,896	59,630	15,734	44,325	60,059
Interest rate options	—	15,600	15,600	—	15,600	15,600
Others	—	—	—	—	—	—

	As of 31 December 2011					
	Buy			Sell		
	TL	Foreign Currency	Total	TL	Foreign Currency	Total
	(*TL thousands*)					
Forward foreign exchange contracts	277,535	341,027	618,562	83,959	532,326	616,285
Currency swaps	158,308	285,670	443,978	14,070	429,455	443,525
Interest rate swaps	—	688,458	688,458	—	688,458	688,458
Currency options	322,425	386,498	708,923	322,425	386,498	708,923
Interest rate options	—	24,954	24,954	—	24,954	24,954
Others	1,939	—	1,939	—	—	—

Other Contingencies and Commitments. In addition to guarantees and commitments, the Group has other contingencies and commitments, the most material of which are derivatives and the commitments to fund loans to customers. The following table summarises all of the Group's off-balance sheet contingencies and commitments as of the dates indicated; for further detail, please see the Group's consolidated BRSA Financial Statements.

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	(*TL thousands*)			
Guarantees and sureties	1,268,979	1,212,557	1,453,420	1,438,376
Loan funding and other commitments	4,499,686	2,801,714	3,314,691	2,929,688
Derivatives	4,968,959	2,978,712	5,163,579	6,265,050
Total Contingencies and Commitments	**10,737,624**	**6,992,983**	**9,931,690**	**10,633,114**

Property, Plant and Equipment

The table below sets forth the components of the Group's consolidated property and equipment as of the indicated dates.

	As of 31 December			As of 30 June
	2011	2012	2013	2014
	(*TL thousands*)			
Buildings	39,433	39,859	39,890	38,873
Vehicles	1,313	1,294	1,404	1,709
Other(1)	24,674	25,977	27,141	31,088
Depreciation	41,196	43,344	44,038	45,493
Net book value	**24,224**	**23,786**	**24,397**	**26,177**

(1) Leasing intangible assets, leasehold improvements, office equipment, furniture and fixtures are shown under "Other."

BUSINESS OF THE GROUP

Overview

The Bank is a Turkish banking institution organised as a joint stock company under the Turkish Commercial Code (No. 6102). The Bank is the first privately owned development and investment bank in Turkey and, as of 30 June 2014, held an 18% share in total assets among Turkish development and investment banks according to the Turkish Banks Association. The Bank, largely in cooperation with DFIs, is principally involved in promoting the development of the Turkish economy by providing long-term funds for the domestic and international investments of Turkish companies, primarily through foreign currency-denominated loans. As well as supporting private sector investments (mostly in industrial sectors), part of the Bank's original and continuing mandate and strategy is to assist domestic and foreign capital owners to finance the development of new businesses in Turkey and to contribute to improvements in Turkish capital markets.

The Group is also involved in capital market brokerage services, portfolio management and corporate finance advisory services. The Group's investment banking activities include advisory services for public offerings, bond issuances and mergers and acquisitions. The Group's strategic advisory activities include providing company appraisal services, feasibility studies and restructuring services. The Group also provides advisory services to domestic and foreign corporations, including locating strategic or financial partners and advising on company mergers and privatisations. The Bank operates in three main business segments: (a) Corporate Banking, which includes the Project Finance and Corporate Marketing departments, (b) Investment Banking and (c) Advisory Services. The Bank has two branches, one in Ankara and the other in İzmir, as well as its principal İstanbul office.

The Bank is the first Turkish-owned bank certified to ISO 14001 (the International Organisation for Standardisation's certificate for Environment Management Systems) based upon its environmental management system. The Bank has a large portfolio of loans to resource efficiency, renewable energy and sustainable tourism projects; *however*, the Bank is focused on further diversifying its loan portfolio. With its numerous environmental and renewable-energy related projects, the Bank is also the first and only Turkish bank to be granted the "Financial Times Sustainable Emerging Markets Bank of the Year" award for Eastern Europe (2008 and 2009). Celebrating its 60th anniversary on 2 June 2010, the Bank was for the third time granted the "Sustainable Bank of the Year" award in the Eastern Europe region under the "Emerging Markets" category of the 2010 Financial Times Sustainable Banking Awards. The Bank also won recognition as the "Best Equity House in Turkey" in the EMEA Finance 2010 European Banking Awards and the "Best Solution Partner Prize" in TIREC's 2011 "Wind Power Awards Turkey." In 2013, the Bank was awarded with the highest corporate governance rating in Turkey (9.40 out of 10) from the Corporate Governance Association of Turkey, which was increased to 9.44 as of 20 October 2014.

As of 30 June 2014, the Group had total assets of TL 14.4 billion, an increase of 7% from TL 13.4 billion as of 31 December 2013, itself a 24% increase from TL 10.8 billion as of 31 December 2012, a further increase of 7% from TL 10.1 billion as of 31 December 2011. As of 30 June 2014, the Group had total shareholders' equity of TL 2.2 billion, an increase of 10% from TL 2.0 billion as of 31 December 2013, itself an increase of 5% from TL 1.9 billion as of 31 December 2012, which increased 16% from TL 1.6 billion as of 31 December 2011.

For the six months ended 30 June 2014, the Group's net profit was TL 213.4 million, a 22% increase from TL 174.6 million for six months ended 30 June 2013. In 2013, the Group's net profit was TL 303.9 million, a 4% decrease from TL 317.0 million for 2012, itself a 22% increase compared to TL 260.7 million for 2011. For the six months ended 30 June 2014, the Group's net interest income was TL 268.0 million, a 17% increase from TL 229.8 million for the six months ended 30 June 2013. In 2013, the Group's net interest income was TL 481.6 million, a 13% increase compared to TL 424.8 million for 2012, which itself was an 18% increase compared to TL 360.0 million for 2011. The Group's net operating income was TL 301.0 million in 2011, TL 381.1 million in 2012, TL 338.2 million in 2013 and TL 249.7 million for the six months ended 30 June 2014 (TL 198.1 million for the six months ended 30 June 2013), while its net period profit from continuing operations was TL 258.6 million in 2011, TL 325.2 million in 2012, TL 299.2 million in 2013 and TL 214.4 million for the six months ended 30 June 2014 (TL 173.4 million for the six months ended 30 June 2013).

As of 30 June 2014, the Group's total capital adequacy ratio was 19.1% and its Tier I capital adequacy ratio was 18.1%, both as calculated in accordance with Basel III rules that came into effect on 1 January 2014. As of the same date, the Group's shareholders' equity was TL 2,232 million, its liquid asset ratio (being the total amount of cash and balances with banks, money market placements, trading securities and available-for-sale securities *divided by* the Group's total assets) was 29.8%.

The Bank's shares have been quoted on the Borsa İstanbul since 1986. As of 30 September 2014, 50.00% of the Bank's shares were held by İşbank (40.52% directly with the remainder held through subsidiaries, including 5.80% of the shares being held by Camiş Yatırım), 8.38% of the shares were held by Vakıfbank, 39.2% was traded publicly on the Borsa İstanbul (58% of which was owned by foreign investors) and the remaining shares were owned by other institutional shareholders.

Strengths

The Bank's management believes that the Group has a number of key strengths that enable it to compete effectively in the Turkish banking sector:

Strong Relationships with the World Bank and other DFIs

Since its founding, the Bank has worked in close cooperation with international institutions, such as the World Bank, the European Investment Bank ("*EIB*"), Council of Europe Development Bank ("*CEB*"), Kreditanstalt für Wiederaufbau ("*KfW*"), Islamic Development Bank ("*IDB*"), French Development Agency ("*AFD*"), International Finance Corporation ("*IFC*"), European Bank for Reconstruction and Development ("*EBRD*") and Japan Bank for International Cooperation ("*JBIC*").

The DFIs have provided the Bank with a strong funding base and a sustainable tenor advantage in comparison to commercial and other banks operating in Turkey. The long-lasting relationship of the Bank with these DFIs and the longer tenor of their loans to the Bank have contributed to the Bank's ability to obtain, and thus provide, stable funding even in the periods of economic instability.

As of 30 June 2014, 91% of the Group's long-term funds, accounting for the 94% of the Group's funding base (excluding repo transactions), was provided with the benefit of a guaranty by the Turkish Treasury. While the World Bank (which, per its constitutional documents, is only entitled to lend to institutions that benefit from a sovereign guarantee), EIB, CEB and IDB provide funding under a guarantee from the Turkish Treasury, the Bank also borrows without a state guarantee from the AFD, IFC and the EBRD, and most recently from KfW after its having provided funding only with a guarantee.

In coordination with DFIs, in 2013, the bank financed new projects in a range of different areas, including energy efficiency, resource efficiency, renewable energy, logistics, sustainable tourism, food and infrastructure. In 2013, the Bank also strengthened its funding base by signing six new funding agreements with DFIs totaling US$880 million and by rolling over its syndicated loan. The Bank also recently signed a loan agreement with the World Bank under the guarantee of the Turkish Treasury for an amount of US$250 million for the World Bank's "Innovative Access to Finance" programme. Through this programme, the Bank aims to extend loans to participation banks and factoring companies, which will subsequently lend such funds to the final beneficiaries. The Bank's management considers the "Innovative Access to Finance" programme to be important as such loans enable the intermediary institutions to access long-term funds.

In addition to the access of the Bank to the DFI funding, the Bank focuses on improving its relations with international banks and generating an increasing volume of free funds. For example, the Bank recently signed an OPIC-guaranteed loan agreement with an international correspondent bank without a guarantee from the Turkish Treasury. In October 2014, the Bank also signed a loan agreement with Agence Française de Développement (AFD) without a guarantee from the Turkish Treasury, which will be utilised to support sustainable tourism investments and innovative renewable energy projects in Turkey. The Bank's Financial Institutions Department manages the Bank's correspondent banking relationships and its international fund-raising activities.

Relationship with İşbank Provides Access to Significant Expertise

As of 30 September 2014, İşbank held 50.00% (40.52% directly) of the Bank's outstanding shares and it has the power to elect six members to the Bank's Board of Directors, which corresponds to the majority of the Board. The Chairman of the Board of Directors is the General Manager of İşbank. While the representatives of İşbank do not interfere with the Bank's business, the Group benefits from its Board members' significant expertise in developing the Bank's strategy and business as well as in accessing information regarding the Bank's borrowers or potential borrowers that also work with İşbank, which has the largest market share in total deposits, Turkish Lira-denominated deposits, demand deposits, number of debit cards and volume of debit cards transactions among private sector banks as of 30 June 2014 (sources: BRSA and Interbank Card Center).

Strong Capital Structure with Conservative Match-Funding Policy

The Group has a strong capital structure, with shareholders' equity of TL 2,232 million, a total capital adequacy ratio of 19.1% and a Tier I capital adequacy ratio of 18.1% as of 30 June 2014. In line with its capital strength, the Group maintains a strong match-funding policy with DFIs. As a result, the Group was less affected than many other global financial institutions from the reduction of liquidity and increased cost of funding that occurred during the recent global financial crisis.

Recognised and Trusted Banking Brand in Turkey

The Bank's management believes that the Bank is one of the most widely recognised, respected and trusted banks in Turkey; it has been in business since 1950, weathering Turkey's often turbulent financial markets and establishing a long-standing focus on prudent risk management and a record of financial stability. The Bank was established under the laws of the Republic of Turkey in 1950 with the support of the World Bank, the Turkish government, the Central Bank and commercial banks as the first development and investment bank of the Republic of Turkey. The strength of the Bank's brand and customer base has enabled the Group to become a Turkish market leader in development-related projects as well as a trusted banking partner for customers during the financial crisis.

Diversified Loan Portfolio

By focusing on building a diversified portfolio of loans by types of loans, industry sector and borrower concentration, the Group has historically generated strong returns. The Bank increased its loan portfolio in U.S. Dollar equivalents from 30 June 2009 to 30 June 2014 at a compound annual growth rate of 13%. The Group's strong credit and risk management know-how have supported the growth of its loan portfolio and, in the Bank's management's opinion, contributed to the healthy diversification of the portfolio.

The Bank's loan portfolio is diversified in terms of loan type. As of 30 June 2014, 54% of the Bank's total loan portfolio was comprised of loans to project finance, 38% to corporate marketing and 8% to APEX loans. The Bank's loan portfolio is also diversified among sectors, with the largest shares in energy production and finance representing 31% and 13% of the Bank's loan portfolio as of 30 June 2014. In the energy production sector, renewable energy projects include hydro, wind, geothermal, biomass and solar power plant projects; two-thirds of these projects are already in operation. The share of energy efficiency loans in the Bank's loan book was 7.5% as of 30 June 2014.

Although development and investment banks (such as the Bank) are not subject to credit limits determined by the BRSA, the Bank has sought to limit exposure to any single borrower and no exposure to a single borrower was greater than 25% of its equity as of 30 June 2014. The share of the Bank's receivables from the top 20 cash loan customers in the overall cash loan portfolio was 36% as of such date. The Bank's loan contracts generally contain clauses permitting the Bank to make adjustments in the applicable interest rates from time to time, subject to the applicable laws and regulations, thereby further limiting interest rate risk.

Prudent Risk Management

Complementing the Bank's diversified loan portfolio, the Bank's management believes it has instilled a prudent and effective risk management culture at all levels of the Group, beginning with careful customer selection to support a quality asset base. The Bank monitors credit quality on an ongoing basis. As the global financial crisis impacted Turkey and the Group's customers, the Group introduced new risk management tools starting from 2008 such as a redeveloped internal rating model for corporate loan customers, software for market risk management, and software for asset and liability management. The Bank also introduced new risk management tools such as applying credit limits to certain industry sectors that have been highly affected by global turmoil, researching potential customers' relationships and credit histories with other banks and becoming more selective in extending new credit lines. During 2013, the Bank grew its loan portfolio by 33% (increasing a further 1% in the six months ended 30 June 2014) while maintaining NPL ratios of 0.4%, 0.2%, 0.4% and 0.2% as of 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, which were lower than the Turkish banking sector's NPL ratios of 2.7%, 2.7%, 2.9% and 2.7%, respectively (source: BRSA).

The Bank's management believes that the Group's focus on enhanced internal controls and risk management systems, as well as its ability to maintain a diverse loan portfolio, will enable the Group to maintain the high quality of its loan portfolio in the future as the Group seeks to continue to grow its business.

Independent Process for Appraising Projects

The Bank evaluates projects internally through its economic research, financial analysis and engineering departments along with its loan and loan monitoring departments. The Bank's specialised and dedicated financial analysis department assesses cash flow projections of potential projects that the Bank is considering funding. In addition to financial analysts, the Bank has for many years maintained an internal team of engineers with practical experience in chemical, electrical, civil and other engineering projects. This team, comprised of engineers who have from five to 14 years of experience, provides the Bank with a significant advantage over its commercial bank competitors who have to seek external experts to analyse the technical plans of projects being contemplated for a project loan.

Strong Focus on Employee Training and Development; Highly Skilled Workforce

The Bank's management believes that a key element of the Group's success has been its emphasis on the quality, training and development of its employees and its turnover rate (*i.e.*, employee resignations excluding retirees) is considered to be low (for example, the Group had a turnover rate of 6.3% during 2013). The Group's dedicated and well-trained employees form a cornerstone of its focus on superior customer service and long-standing customer relationships and also provide the Group with a competitive advantage over its competitors, particularly in a growing market where there is a high demand for skilled personnel. Historically, the Group has sought to maximise the opportunity for career development for its employees, with all positions typically filled through internal promotions and appointments.

Maintain High Standards of Corporate Governance and Business Ethics

The Bank's management believes that the Group's internal corporate governance structure reflects the best market practices of the Turkish and international banking sectors. The Group has established corporate governance principles and complies with applicable laws and regulations for sustainable banking, and the Bank's management perceives execution of such principles as an essential component of responsible banking. The Bank's management believes that compliance with corporate governance principles is important for the Bank to create, protect and maintain value for its shareholders. The Bank's corporate governance structure also develops communication channels and platforms in order to reinforce communication with its stakeholders, particularly the Group's customers, employees and shareholders.

The Group established these corporate governance practices to improve management's efficiency and to further protect the interests of the Group's stakeholders, including its customers and shareholders. The Bank prepares a "Corporate Governance Principles Compliance Report" each year, which is a report by the Bank's Board of Directors about the compliance of the Bank's corporate governance practices with the corporate governance principles of the CMB.

Since 2009, the Bank has received corporate governance rating from SAHA Kurumsal Yönetim ve Kredi Derecelendirme A.Ş., a company authorised by the CMB to rate companies' compliance with corporate governance principles. Since having been first rated and included in BIST Corporate Governance Index at the Borsa İstanbul in 2009, the Bank maintained its place in the top three companies with the highest corporate governance ratings and has evidenced its success in corporate governance practices with awards granted by the Corporate Governance Association of Turkey. With its corporate rating revised up to 9.40 (out of 10) in 2013, the Bank obtained the highest corporate governance rating in Turkey, which was then further increased to 9.44 as of 20 October 2014.

The Bank's Regulatory Burden is Lower than that of its Universal Banking Competitors

The Bank's regulatory burden is generally lower than that of universal banking competitors since the bank is a development and investment bank, subject to certain different rules and operating in different business lines, most importantly the absence of a retail banking business. For instance, the recent regulatory changes introduced in Turkey target only retail banks and thus do not directly affect the Bank; *however,* most of the Bank's competitors have a retail banking business and their regulatory burden is thus significantly higher than that borne by the Bank. As noted above, the Bank is also exempt from maintaining reserves with the Central Bank for its liabilities that are guaranteed by the Turkish Treasury. This lower regulatory burden not only avoids potentially high additional administrative costs for the Bank but enables it to act more responsively to its clients' needs.

Strategy

The Bank's vision is to maintain sustainable growth in Turkey by adding value to the Turkish economy (principally through supporting the private sector with medium- and long-term financing), which reflects the Bank's goal of being the pioneering bank in Turkey's sustainable development. The Bank aims to exhibit and deploy more aggressively its knowledge and potential in all of its all core business lines. The Bank is focused on expanding its client base and increasing its allocations in line with the needs of the Turkish market, which offers sustainable growth potential in the mid- and long-term.

The Bank's principal strategies to achieve this vision include having sectoral diversification in its loan portfolio, maintaining its access to medium- and long- term funding from DFIs with competitive terms and conditions, diversifying its funding base, improving its synergies with its subsidiaries (including to increase its fee-generating capabilities) and constantly strengthening its strong personnel base (including in its financial analysis and engineering departments).

In this context, the Bank finances projects in a broad range of Turkish industries, including energy efficiency, resource efficiency, renewable energy, logistics, sustainable tourism, food and infrastructure. Although the energy production loans continue to represent a large share of the Group's loan book, corresponding to 31% of the loans as of 30 June 2014, the Bank plans to reorient some of this focus towards other sectors, such as infrastructure, sustainable tourism, agricultural, resources, energy efficiency and PPPs in the health and education sectors. In terms of renewable energy, the Bank's portfolio includes hydro (currently representing a majority of its renewable energy loan portfolio), wind, geothermal, biomass and solar power plant projects and the Bank intends to become more diversified by focusing on future wind, geothermal, biomass and solar projects.

In terms of project finance, the Bank has been involved in projects in a variety of areas, such as energy efficiency, sustainable tourism, and electricity and gas distribution. In the Bank's loan book, the share of project finance loans represented 54%, corporate loans 38% and APEX loans (which are channeled to leading banks and leasing companies and, usually to finance SMEs indirectly) 8% of the Bank's loan portfolio as of 30 June 2014 (9% as of 31 December 2013).

While expanding the loan portfolio, the Bank emphasises the importance of maintaining asset quality and avoiding risky loans. In line with this strategy, existing loans are analysed and monitored closely and to date the Bank has been successful in maintaining its asset quality. While allocating funds, the Bank also continues to adhere strictly to its environmental protection standards, which is one of the building blocks of its mission, vision and strategy.

Maintaining its access to medium- and long- term funding from DFIs with competitive terms and conditions is a principal strategy of the Bank, and the Bank works to ensure that its lending practices do not compromise its funding opportunities with DFIs (for example, the Group avoids lending even non-DFI-sourced funds to certain sectors, such as gambling and ammunition, that are not viewed favourably by the DFIs). This funding enables the Bank to increase its lending capacity, especially in project finance.

While the Bank anticipates that its relationships with DFIs will continue to be by far its largest source of funding, the Bank is seeking to diversify its funding resources (*e.g.*, by issuing eurobonds such as the Notes) in order to fund its targeted 2015 loan growth of 15% in foreign exchange-adjusted terms.

In 2013, the Bank's management decided to further concentrate on corporate banking and boost synergies not only with its subsidiaries but also among its different business lines, with a principal aim being to boost the Group's fee and commission income. To this end, the Group intends to focus further on its advisory services in mergers and acquisitions, assisting companies to find financial as well as strategic partners and providing customers with strategic advisory services in the form of financial restructuring and feasibility studies. To support this strategy, the Bank restructured the capital markets brokerage services that the Bank used to offer directly but now offers to the Group's retail clients through its subsidiary Yatırım Finansman. As a result of this strategic development, the Bank does not have any retail clients as of the date hereof, as its active retail clients have transferred their portfolios to this subsidiary.

The Bank's well-qualified personnel are a significant factor behind its long-term success and part of its strategy. In addition to recruiting experienced professionals for senior positions, the Bank's strategy is to develop leaders from within its own highly-qualified employees and to fill positions through internal promotions and assignments as much as possible. As a part of this strategy, the Bank continues to recruit new qualified graduates.

History and Development

The Bank was established under the laws of the Republic of Turkey in 1950 with the support of the World Bank, the Turkish government, the Central Bank and commercial banks as the first development and investment bank of the Republic of Turkey. Initially, the Bank supported the World Bank's development programmes in Turkey and has since expanded its cooperation to other DFIs such as the EIB, CEB, KfW, AFD, IFC, JBIC, IDB and the EBRD. The Bank's ordinary shares have been listed on the Borsa İstanbul since 1986.

The Bank is headquartered in İstanbul and (with its Group) provides a range of banking services for corporate customers, including corporate banking, investment banking, capital markets operations and advisory services. The Bank's articles of incorporation provide for the following activities:

- providing assistance in all sectors of the economy, primarily in the industrial sector, for setting up new plants and expanding, modernising and developing the activities of existing plants,

- providing assistance in the implementation of projects and activities that will be carried out abroad by entrepreneurs directly or as joint ventures,

- encouraging and assisting local and foreign capital enterprises in undertaking investments in Turkey and participating in the capital of companies that are already established or will be established in Turkey, and

- assisting the development of capital markets in Turkey and encouraging and promoting the private ownership of securities issued by industrial enterprises.

The Bank was established in İstanbul with the Council of Ministers resolution numbered 3/11203 and was registered with the İstanbul Chamber of Commerce on 31 May 1950 under registration number 42527. The Bank is a development and investment bank under the Banking Law and is duly organised and incorporated and validly existing as a joint stock company (*anonim şirket*) under the Turkish Commercial Code (No. 6102). The duration of operation of the Bank as a joint stock company is unlimited.

Business Activities

The Group provides a range of banking services and presents its group structure under three principal business lines: corporate banking, investment banking and advisory services, each as described below:

- *corporate banking activities*: the corporate banking activities include corporate loans, syndicated loans, non-cash loans (including letters of guarantee, guarantees and acceptances), foreign trade operations and project finance, acquisition finance and working capital finance,

- *investment banking activities*: the investment banking activities include: (a) portfolio management, marketable securities brokerage activities, cash flow management, corporate finance, public offerings of stocks, advising on privatisations, mergers and acquisitions, purchase and sale of assets, issuance of debt instruments and providing strategic advisory services and (b) offering treasury services, such as a fixed income business (asset and liability management and bond offering), futures and options brokerage, interest rate swaps, currency and cross currency swaps, swaptions and caps, floors, foreign exchange, repo transactions and other structured products, and

- *advisory services*: the advisory services consist of strategic consultancy (including appraisals of companies, brands and licenses), real estate appraisal and environmental advisory services.

For accounting purposes, the Bank reports the Group's business in its BRSA consolidated financial statements under three segments: Corporate Banking, Investment Banking and Others. The Bank's results make up the large majority of the results for these three segments, with the remainder being contributed by the Bank's subsidiaries and associates. The Bank does not consolidate the results of its non-financial subsidiaries and associates in the BRSA consolidated financial statements on a line-by-line basis and so these results do not appear in the segmental data included therein; *however*, they are shown under the "Investments in Associates" and "Investments in Subsidiaries" items at their book values. For a list of the non-financial subsidiaries and associates, see "Business of the Group – Subsidiaries and Other Affiliates – Non Financial Subsidiaries."

Banking Units

Corporate Banking

The Bank's Corporate Banking business provides services to companies ranging from large corporates to SMEs. The unit consists of two main departments, the Project Finance department and the Corporate Marketing department. The Corporate Banking business unit's long-term strategy is to enhance its customer franchise and to broaden its product portfolio in order to diversify revenue sources and to contribute to the Group's sustainable and profitable growth.

A significant portion of the Corporate Banking business involves extending loans to corporate customers. The Bank primarily offers the following types of loans to its corporate customers: revolving loans, overdraft loans, discount loans, foreign currency-indexed loans, foreign currency-denominated loans, letters of guarantee, spot loans and investment and project finance loans. In addition to its loan products, the Corporate Banking unit, in coordination with the Investment Banking unit, also seeks to provide tailored products that are designed to offset customers' exposures to interest, maturity and currency risks, including through the use of customised investment vehicles, forward and futures contracts, swaps and options that take into account the goals, risk tolerance levels, cash flows and other unique concerns of the customer.

Project Finance Department

A significant portion of the Bank's corporate loan portfolio relates to its project finance activities. The Bank has played a key role in a number of major project finance deals in Turkey, including the financing of infrastructure and energy deals, privatisations and capital expenditure financing in electricity and gas distribution, airport and port deals and mergers and acquisitions. As of 30 June 2014, the Project Finance business unit accounted for TL 5.2 billion of loans (54% of the Group's total loans), 93% of which was funded by funds raised from DFIs.

The Bank selectively extends financing for high-volume private sector investments, privatisations and merger and acquisition projects, while remaining committed to its risk-sensitive approach. The Bank granted loans related to financing electricity production, electricity/gas distribution, energy efficiency and infrastructure projects with an estimated total loan value of US$625 million in 2013 and US$580 million in 2012.

The Bank provides project finance with full recourse to project assets and limited or full recourse to the sponsors. Only selected transactions adhering to international standards that have very limited bankability concerns may be financed on a pure non-recourse basis. The Bank aims to expand its client base and build-up its portfolio in the short term for project finance projects.

The Bank's project finance activities have received the following awards from the publication Euromoney: "European Transport Deal of the Year" in 2007 for Mersin Port Project, "Geothermal Deal of the Year" in 2008 for the Gürmat GPP Project, "Hydroelectric Power Deal of the Year" in 2010 for the Boyabat Dam and Hydro Electric Power Plant Project, "European Utilities Deal of the Year" in 2010 for the Uludağ Elektrik Dağıtım A.Ş. (UEDAŞ) and Çamlıbel Elektrik Dağıtım A.Ş. (ÇEDAŞ) Privitisation Finance, and "European Transport Privatisation Deal of the Year" in 2011 for the İDO (İstanbul Fast Ferries) Project

The Bank's project finance activities also provide the Group with cross-selling opportunities for its derivative products and other banking services. These activities provide a significant contribution to the Group's business volumes.

Corporate Marketing Department

The Corporate Marketing department provides a range of corporate banking products and services including, but not limited to, corporate loans, non-cash loans (including letters of guarantee, guarantees and acceptances), foreign trade operations, risk management products, wholesale loans, working capital loans and cash management services. As of 30 June 2014, the Corporate Marketing department accounted for TL 3.7 billion of loans (38% of the Group's total loans), 87% of which was funded by funds raised from DFIs.

The Bank's non-cash loans are predominantly made through the Corporate Marketing department. The total size of non-cash loans supplied by the Bank reaching US$683 million as of 30 June 2014, with significant portions of this amount represented by letters of guarantee provided by the Bank. In 2013, the Bank allocated the bulk of non-cash loans to clients operating in the electricity distribution, electricity production and iron-steel industries.

APEX (Wholesale) Banking. Through the Corporate Marketing department, the Bank remains the leader and model implementer of APEX banking. APEX loans allow the Bank to reach SMEs and offer them funds that are secured from international agencies, particularly from World Bank Export Finance Intermediation Loans ("*EFIL Loans*") and from the CEB and EIB. The purpose of EFIL Loans is to support companies in their efforts to increase exports and create new job opportunities, whereas the APEX funding from the CEB and the EIB is principally used to finance SME loans.

APEX funds received by the Bank are then on-lent to local financial institutions for them to make loans for the specific purpose specified by the funding organisation. In this manner, the funds can be raised by the Bank under the guarantee of the Turkish treasury and on-lent to other financial institutions who cannot raise funds that benefit from such a guarantee. Within the scope of APEX banking, the Bank currently collaborates with 15 financial companies, which are comprised of financial leasing companies and commercial banks.

As of 30 June 2014, the total outstanding volume of loans supplied by the Bank through APEX banking reached US$382 million, accounting for 8% of the Bank's total loan portfolio. The Bank is a preferred business partner of the World Bank in Turkey within the scope of EFIL Loan programmes. Since 2004, the Bank has been actively involved in four EFIL Loan programmes, each of which has been completed by 30 June 2014. Through participating in these programmes, the Bank provided a total of more than US$1 billion to approximately 610 companies.

Investment Banking

The Bank provides capital market services and investment banking services through its Treasury and Corporate Finance departments and its subsidiary Yatırım Finansman. The Bank offers these services and products with competitive pricing to a number of domestic and international companies. For the six months ended 30 June 2014, the Investment Banking business unit generated TL 11.7 million of fees and commissions, accounting for 73% of the Group's total fees and commissions (TL 26 million and 78%, respectively, in all of 2013 and TL 14 million and 80%, respectively, in the first half of 2013).

Treasury Department

The Bank's Treasury Department (in coordination with its financial subsidiaries) offers a diverse range of treasury products to its corporate and investment banking customers with competitive pricing. These include advanced derivative products, such as options, forward contracts, interest rate swaps, cross currency and currency swaps, swaptions and caps, floors, as well as more traditional treasury products such as foreign exchange, repo transactions and fixed-income securities.

The Turkish Treasury issues bonds both domestically and internationally. Its domestic issuances include zero coupon bonds and coupon bonds. Coupon bonds include inflation-linked bonds, fixed coupon bonds, floating rate notes and lease certificates. All types of Turkish Treasury issuances can be sold and purchased by the Group's customers without any restriction. Repo and reverse-repo transactions for various maturities are executed on an electronic platform in the Borsa İstanbul Debt Securities Market. OTC reverse repo transactions are also offered to the Bank's customers.

In addition to securities transactions made on behalf of its customers, the Group manages its own portfolio of securities. As of 30 June 2014, the Group's total securities portfolio was valued at TL 3.0 billion, approximately the same amount as of 31 December 2013 (TL 2.9 billion and TL 2.5 billion as of 31 December 2012 and 2011, respectively).

As of 30 June 2014, the Bank's securities portfolio was comprised of Turkish Lira-denominated floating rate securities (66%), Turkish Lira-denominated discount and fixed securities (22%), foreign currency-denominated discount and fixed securities (12%) and foreign currency-denominated floating securities (0.2%). Turkish government bonds and Turkish government treasury bills constituted 82% of the Bank's total securities portfolio as of 30 June 2014. Moreover, 99% of the Bank's total securities portfolio was classified as "available-for-sale" as of 30 June 2014.

Corporate Finance Department

In its Corporate Finance Department, the Bank operates in the four principal areas described below:

- *public offerings*: benefiting from its extensive experience and vested relationship with relevant parties, the Bank contributes to the development of the Turkish capital markets by providing advisory and other services in the equity offerings of Turkish companies, which services it has provided since the establishment of the predecessor of the Borsa İstanbul,
- *issuance of debt instruments*: the Bank provides services in relation to the issuance of debt instruments via public offerings or private placements, benefiting from its widespread network by bringing together domestic and international companies with the right strategic and/or financial investors,
- *mergers & acquisitions*: the Bank finds financial as well as strategic partners for companies and coordinates the acquisition process within the scope of its mergers and acquisitions advisory services, and

- *strategic advisory*: the Bank: (a) assists companies that seek to build-up their capital and know-how, expand into new markets or undertake large-scale investments, (b) advises on the procurement of financing for projects and acquisitions, (c) advises buyers and sellers in real estate or asset sales (such as the sale of an electricity distribution company) and privatisations and (d) performs related appraisal, financial restructuring and feasibility studies.

Advisory Services

The Group provides advisory services to its customers, principally in the areas of strategic consulting, real estate appraisal and environmental advisory services. The strategic consulting work includes undertaking appraisals of companies, brands and licenses, providing project valuation and feasibility services, financial structuring, sectoral analysis and project finance consultancy. The Group, principally through its subsidiaries, provides real estate appraisal and related services, such as appraisals of machinery and equipment and collateral.

Consistent with the Bank's long history of being in the vanguard of environmental sustainability issues, the Group also offers environmental sustainability consultancy. These services seek to assist the Group's clients to implement internationally accepted sustainability methods through improvements to business management and production processes. The Group provides assistance relating to evaluations of the environmental and social impact of projects, including the impact on climate and natural resources, and also provides technical and other support for renewable energy and other sustainability efforts.

The advisory services business generates fees and commissions for the Group, amounting to TL 8,566 thousand for 2013 (TL 3,822 thousand during the first six months of 2014). While not a large share of the Group's revenues, the advisory services business provides many benefits to the Group, including strengthening its relationships with clients and supporting the goals of its DFI partners.

Subsidiaries and Other Affiliates

Since its establishment in 1950, the Bank has played an important role not only in the Turkish financial sector but also in certain industrial sectors in Turkey. As of 30 June 2014, the Bank's had direct equity interests in eight companies operating in finance and other sectors. As of 30 June 2014, the total book value of the Bank's investment in financial subsidiaries was TL 129.4 million (including other financial associates, such amount was TL 285.2 million). While all of these holdings are classified as available-for-sale securities, the Bank does not have any current intention to sell any of such holdings.

Financial Subsidiaries and Associates

The Bank has direct and indirect financial services subsidiaries active in the following sectors: brokerage and custody, real estate investment trust asset management, venture capital, leasing and factoring. Financial services subsidiaries enrich the product and service range that the Bank offers to its customers through its various business lines and create cross and complementary product delivery and sales opportunities.

The following table sets forth details of the Bank's financial subsidiaries and associates as of 30 June 2014.

	Field of Activity	Bank's Direct Share	Group's Share	Assets[1]	Shareholders' Equity	Market Share
Group Company				(*US$ thousands*)		
Yatırım Finansman Menkul Değerler A.Ş.	Brokerage House	95.78%	98.51%	236,796	35,093	2.03%[3]
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş	REIT	59.00%	66.84%	176,635	101,312	N/A
İş Finansal Kiralama A.Ş.[2]	Leasing	28.56%	57.36%	1,291,277	285,447	N/A
İş Faktoring A.Ş.	Factoring	21.75%	100.00%	628,678	32,579	N/A
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.[2]	Venture Capital Inv.Trust	16.67%	57.67%	126,474	123,872	N/A

Notes:
(1) Total Assets (derived from the BRSA's website).
(2) Consolidated amounts.
(3) Transaction volume (derived from the Borsa İstanbul's website).

Brokerage

The Bank directly owned 95.78% of the share capital of Yatırım Finansman as of 30 June 2014. Yatırım Finansman commenced operations on 15 October 1976 as the first capital market corporation of Turkey and had as its founders 13 large banks under the leadership of the Bank and İşbank. Yatırım Finansman's principal capital market activities are equity-related businesses and asset management, and Yatırım Finansman also has the authority to provide investment consultancy, portfolio management and repo services. Yatırım Finansman acted as an intermediary for the first private sector bond issuance in Turkey and provided consultancy services to the Borsa İstanbul. Yatırım Finansman opened a branch at the Bank's head office in Fındıklı, İstanbul, in order to create synergies with the Bank and offer services more efficiently.

According to data provided by the Borsa İstanbul, Yatırım Finansman had the following market shares in organised exchange transactions (for the first six months of 2014): 2.03% in Borsa İstanbul equity transactions and 0.19% in the "Outright Purchases and Sales" market of the "Bills & Bonds" market among brokerage houses. According to data provided by the Borsa İstanbul, Yatırım Finansman was 15th among licensed brokerage firms in Turkey in terms of equity trading volume as of 30 June 2014. Yatırım Finansman's consolidated net sales and net profit figures for the six months ended 30 June 2014 were TL 16.0 million and TL 3.8 thousand, respectively (TL 26.0 million and TL 3.0 million, respectively, in all of 2013) while its consolidated assets and equity as of 30 June 2014 amounted to TL 684.0 million and TL 74.0 million, respectively (TL 734.0 million and TL 73.0 million, respectively, in all of 2013). The volume of assets under Yatırım Finansman's management increased from TL 558.0 million as of 31 December 2012 to over TL 734.0 million as of 31 December 2013. In addition, as of 31 December 2013, Yatırım Finansman was the fourth largest licensed brokerage firm in Turkey in terms of its paid-in capital, which was TL 61.0 million (source: Union of Turkish Brokerage Firms).

Real Estate Investment Trust

TSKB REIT, founded in 2006, is a real estate investment trust in which the Bank had a direct equity shareholding of 59.00% and the Group had a 66.84% share as of 30 June 2014. According to the Public Disclosure Platform of the Borsa İstanbul, TSKB REIT was the 19th largest real estate investment trust in Turkey as of 30 June 2014 with an asset value of US$177 million. The real estate portfolio of TSKB REIT, from which the company earns rental income, is comprised mainly of office spaces and commercial properties, such as a shopping centre located in İstanbul. TSKB REIT has also been developing a hotel project in Adana, in which TSKB REIT will hold 50% of the share capital.

Leasing

İş Leasing was established in 1988 as a joint venture among the Bank, Société Générale and the IFC. The latter two entities sold their interests in 1995 and, as of 30 September 2014, the Bank held a 28.56% direct equity interest, İşbank held 27.79% and the remaining shares are traded on the Borsa İstanbul. As of 30 June 2014, the consolidated total assets and equity of İş Leasing amounted to TL 2,715 million and TL 600 million, respectively (TL 3,493 million and TL 604 million, respectively as of 31 December 2013). Net current leasing receivables amounted to TL 2,285 million as of the same date (TL 2,175 million as of 31 December 2013). As of 30 June 2014, the distribution of leased assets by equipment categories as a percentage of total leased assets in the company's portfolio were as follows: real estate (29%), machinery and equipment (26%), construction equipment (16%), transport (12%) and other sectors (17%).

Factoring

The Bank had a 21.75% direct share and (through İş Leasing) a 100% indirect share in İş Faktoring as of 30 June 2014. The company had TL 1,322 million in total assets and TL 68 million in equity as of 30 June 2014 (TL 972 million and TL 69 million, respectively as of 31 December 2013), while its factoring receivables amounted to TL 1,302 million as of the same date (TL 946 million as of 31 December 2013). İş Faktoring is fully consolidated under İş Leasing.

Venture Capital Investment Trust

İş Girişim is a venture capital investment trust that was established in 2000 according to CMB rules and, as of 30 June 2014, was Turkey's second largest private equity fund in terms of market value according to the CMB. A 37.69% share of İş Girişim was floated on the Borsa İstanbul in 2004. As of 30 June 2014, the Bank held a direct equity share of 16.67% in the company, reflecting a paid-in capital amount of TL 12.4 million.

Being one of the most active and the very few local private equity houses, İş Girişim partners with Turkish companies to help them not only in Turkey but also globally to compete in their respective industries by sourcing acquisitions, enhancing operational efficiencies, facilitating new market expansions and designing the optimal capital structure to support them during the execution of their strategies.

İş Girişim's net profit for 2013 was TL 68.7 million (for the first half of 2014, a net profit of TL 10.6 million). The company's assets and equity as of 30 June 2014 amounted to TL 266 million and TL 260 million, respectively (TL 421 million and TL 269 million, respectively as of 31 December 2013).

Non-Financial Subsidiaries and Associates

In addition to its subsidiaries and associates in the financial sector, the Bank holds equity stakes in companies whose businesses (such as companies engaged in real estate appraisal and real estate consulting) are outside of its core operations. In the past, the Bank has invested in a number of diversified companies as part of the promotion and development of Turkish industry and in areas in which its management believes investments provide a competitive rate of return. The Bank's non-financial subsidiaries represented 0.014% and 0.017% of its total assets as of 30 June 2014 and 31 December 2013, respectively.

For the six months ended 30 June 2014 and the year ended 31 December 2013, total dividend income received by the Bank from its non-financial subsidiaries amounted to TL 900 thousand and TL 1,566 thousand, which constituted 0.45% and 0.48%, respectively, of the Group's net income. As of 30 June 2014, TSKB Gayrimenkul Değerleme A.Ş. was the sole significant long-term strategic non-financial subsidiary of the Bank. The non-financial subsidiaries of the Group are not consolidated in the income statement of the consolidated BRSA Financial Statements; *however*, they are shown under the "Investments in Associates" and "Investments in Subsidiaries" line items at their book values.

The following table sets forth certain information, as of 30 June 2014, about the non-financial companies in which the Bank own(s) 15% or more of the outstanding share capital. None of these investments represented more than 0.15% of the Bank's assets as of such date.

Company	**Bank's Direct Shareholding**	**Shares owned by the Bank and the Bank's affiliates**	**Sector**
TSKB Gayrimenkul Değerleme A.Ş.	99.99%	99.99%	Real Estate Appraisal
TSKB Gayrimenkul Danışmanlık A.Ş.[1]	46.58%	100.00%	Real Estate Consulting
Sürdürülebilir Danışmanlık A.Ş.	—	97.00%	Consultancy
Terme Metal Sanayi ve Ticaret A.Ş.	17.83%	18.76%	Metal Industry
Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş	10.00%	20.00%	Warehousing

(1) This company is in liquidation.

Information Technology

The Bank's technology operations and initiatives are managed by its Information Technology Department (IT). This department employs IT professionals dedicated to installing, maintaining and operating the Bank's software applications, management information system and security system. There is a continuous effort to implement and operate best practices according to COBIT, which is a leading IT governance standard. All operational data and software are stored on Microsoft-based computer systems. The Microsoft brand back office product family, such as Windows Server, SQL Server, Net Framework and Exhange Server, are used for core business areas and Microsoft-based servers have been chosen as the strategic growth platform for new emerging lines of business and business process management applications.

The Bank's main data center is located at its head office in İstanbul, which acts as the Bank's main IT operation center and connection point for the internet. The Bank has a contract with Turkcell Superonline to provide a disaster recovery solution for the Bank's critical systems. Turkcell Superonline's datacenter is located in the Asian side of İstanbul.

The Group's IT infrastructure is being continuously improved in order to maintain the Group's competitive position in the Turkish banking sector.

Lending Policies and Procedures

Credit Approval and Monitoring

The credit approval procedure for corporate customers starts with the evaluation of the project and the credit. Project or credit evaluation is comprised of an analysis to the project's and/or the company's: (a) economic, (b) technical, (c) financial, (d) managerial and organisational, (e) informational and (f) legal criteria. These criteria complements each other and all these criteria are included in the loan reports that are submitted for approval. The Bank's Financial Analysis Engineering Departments gather this information in an evaluation report. The Intelligence Unit also prepares its own intelligence reports based upon information gathered from other outside sources. A thorough evaluation is conducted in line with the credit policies of the Bank and the Loans Department presents the project/company and general loan conditions to the Credit Committee. If a unanimous approval is obtained by the Credit Committee, then the proposals are submitted to the Board of Directors for approval. For interbank loans, the Economical Research Department prepares the counterparty evaluation reports and presents the results to the Loans Department and, if unanimous approval is obtained in the Credit Committee, the proposals are submitted to the Board of Directors for approval.

The Bank aims to reduce the risk of its loans by implementing a detailed monitoring process. The companies that the Bank provides financing for, and the sectors of such companies, are analysed periodically. The purpose of this follow-up is to ensure that the projected investments are completed in a timely manner and the conditions of the projects are satisfactory. Such close monitoring enables the Bank to identify any problem that may arise during the implementation and operation stage and enables the Bank to provide assistance to the companies in solving any problems that arise.

The Bank requires its borrowers to be audited by an independent audit company acceptable to the Bank or its own accountants in accordance with the Auditing Procedures and Principles and requires such financials to be delivered to the Bank during the term of the loan. During the investment period, in general, either a third party technical advisor prepares a progress report or the Technical Analysis Team of the Bank conducts an investment monitoring report to follow-upon the progress of the borrower's investment. During the borrower's operational period, financial covenants and the amount of cash flows in the pledged accounts help the Bank to monitor the financial performance of the company/project and hedges the default risk with mechanisms such as an assignment of receivables and share pledges among other collateral. As a common practice, the Bank evaluates the financial statements of the companies periodically. The Loan Monitoring Department periodically prepares monitoring reports or requests reports from the Technical Analyses Departments (Financial and Engineering Departments) for review. Additionally, the borrowers are subject to rating analyses annually based upon their year-end financials. In case of a downgrade, detailed analyses are applied and the reason for such downgrade is investigated in order to take necessary precautions, if needed.

The Bank also monitors behavioural indicators in order to detect deteriorating positions in its loan portfolio in a timely and efficient manner. Such indicators include information from the Central Bank's Risk Centralisation division regarding changes in the financial indebtedness of the borrowers or defaults on their liabilities and commitments (*e.g.*, unpaid principal or interest, unpaid checks, protested drafts or bonds and unpaid commissions). All customers are monitored monthly for these indicators. The Bank's management believes that this has been a supportive process for both decision-making on new credit assignments to existing customers and for taking actions to prevent a borrower default.

Concentration Limits

Although development and investment banks (such as the Bank) are not subject to credit limits determined by the BRSA, the Bank has certain internal concentration limitations for its loan portfolio, which limitations are even more stringent than the regulations set by the BRSA. The Bank's internal regulations also differ from the BRSA regulations in certain ways, such as, in the Bank's internal approach, borrowers are separated into different limit categories and exposure to borrowers in each category is limited to a certain percentage of the Bank's own funds.

When the Bank's portfolio contains large credit exposures, whether credits extended directly or indirectly, to: (a) a single company, (b) a group of affiliated companies, (c) a special industry or sector or (d) a foreign country or a group of foreign countries, the limits set by the Board of Directors are imposed to prevent excessive concentration risk.

The Bank's internal concentration limits are as follows:

- total credit exposure to companies that fall within the definition of large credit exposures should not exceed eight times the Bank's capital,

- the maximum risk-based credit limit for a single company or group of companies may not exceed 25% of the Bank's capital,

- the maximum credit risk to a specific sector may not exceed 40% of the total credit portfolio (including APEX loans) for the energy production industry and 25% of the total credit portfolio (excluding APEX loans) for other industries,

- the maximum limit for the sum of letters of guarantee that can be accepted from a bank and APEX lending to that bank may not exceed 1.5 times such bank's capital,

- the maximum limit for APEX lending to a non-bank financial company may not exceed 35% of the Bank's capital, and

- the maximum limit for loans to related parties may not exceed 25% of the Bank's capital (for this limit, exposures and the Bank's capital are monitored on a consolidated basis).

It should be noted that APEX loans are excluded from such calculations unless stated otherwise.

The following table shows the BRSA legal limits for each of the major concentrations as of the date hereof:

	Turkish legislation
A borrower's indebtedness/own funds(1)	25%
A group of borrower's indebtedness/own funds(1)..........................	25%
The Bank's own risk group's indebtedness/own funds(1)	20%
Total of large loans cannot exceed the own funds over(1) (2)...........	800%

(1) Own funds calculated as the total of Tier I capital and Tier II capital as required by the BRSA in the capital adequacy calculation regulation.

(2) Large loans are the loans made available to a real or legal person (or risk group) that equals or exceeds 10% of a bank's own funds.

Loan Classification and Provisioning Policy

The Bank classifies its total loan portfolio in accordance with current Turkish banking regulations in its financial statements. Pursuant to these regulations, banks are required to classify their loans and receivables in one of the following groups:

Standard Loans and Other Receivables (Group I) – All loans and receivables are fully collectible or expected to be paid in full in a timely manner where the debtor is financially strong. Loans that are paid in due time and that suffer insolvency up to 30 days are classified in this group.

Closely Monitored Loans and Other Receivables (Group II) – In the event that a deterioration in the financial condition or in the cash flow of the debtor is evidenced, or there is sufficient proof or risk that repayment will not be made in a timely manner and in accordance with the conditions as set forth in the applicable loan agreement, loans and receivables must be allocated to this group. Nevertheless, in order to be classified in this group, there must be an expectation that such loans or receivables will be repaid in full. It is not required to provide any specific reserve for this group of loans. Loans whose maturity exceeds 30 days, but that do not meet the requirements to be classified in Group III regarding the length of the default in payment, are among this group.

Loans and Other Receivables with Limited Collectability (Group III) – In the event that the principal and/or accrued interest on a loan or receivable is not paid within a period of 90-180 days following its due date, then such loan or receivable must be allocated to this group.

Loans and Other Receivables with Remote Collectability (Group IV) – In the event that the principal and/or accrued interest on a loan or receivable is not paid within a period of 180 days to one year following its due date but there is still an expectation that the debtor may get additional financing by way of a merger, capital increase or cash injection, then such loan or receivable must be allocated to this group.

Loans and Other Receivables Considered as Losses (Group V) – In the event that there is no likelihood of collection on a loan or receivable, or the principal and/or accrued interest thereon is not paid or not expected to be paid within one year following its due date, such loan or receivable must be allocated to this group.

In the event that a loan is not expected to be paid within 90 days of the due date or the net equity of the debtor and the security provided is not sufficient for the repayment of a loan or receivable, it can be directly classified as an NPL without considering any unpaid period.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above and the collection of whose principal and/or accrued interest payments thereon have remained unpaid for 90 days following their due dates are classified as NPLs. Furthermore, if: (a) the Bank's management has reason to believe that the borrower will default or (b) a guarantee is not paid within 90 days following the date of indemnification, the Bank has to classify the unpaid loan and all other loans of the same borrower as non-performing regardless of whether they have reached maturity.

Loans are classified and followed in line with the provisions of the Regulation on Provisions and Classification of Loans and Receivables. Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20%, 50% and 100%, respectively, being required to be set aside for loans and receivables in Groups III, IV and V. See "Turkish Regulatory Environment – Loan Loss Reserves." Specific provisions are allocated by the Group for the total amount of loans and other receivables that are deemed to be non-performing, without being restricted by the minimum legal requirements stated in such regulation. The Bank's policy is to provide fully (at a rate of 100%) for all of its non-performing loans rather than at the lower minimum rates applicable to loans and receivables in Groups III and IV.

As of 17 July 2014, Turkish regulations also require Turkish banks to provide: (a) a general loan loss reserve calculated at 1% of their total standard cash loan portfolio (except for export loans and SME loans, for which the general loan loss reserve is calculated at 0% and 0.5%, respectively) *plus* 2% of their watch-list cash loan portfolio and comprising any loan that is considered to be a cash loan pursuant to the applicable banking law provisions and (b) a general reserve calculated at 0.2% of their total standard non-cash loan portfolio (*i.e.*, letters of guarantee, acceptance credits, letters of credit, undertakings and endorsements) (except for export loans and SME loans, for which the general loan loss reserve is calculated at 0% and 0.1%, respectively) *plus* 0.4% of their watch-list non-cash loan portfolio. Furthermore, regulations as of such date also require banks to provide general reserves equal to: (i) 5% of their standard cash loan portfolio (except 0% for export loans and 2.5% for SME loans) and watch list cash loan portfolio whose loan conditions will be amended in order to extent the first payment schedule, (ii) 4% for standard and 8% for watch list consumer loans other than housing loans, all applicable for the banks whose consumer loans to total loans ratio is above 25% or those having a ratio of non-performing consumer loans (other than housing loans) to consumer loans (other than housing loans) above 8%, and (iii) 10% for standard and watch list consumer loans (other than housing loans) whose loan conditions will be amended in order to extent the first payment schedule and for those banks whose consumer loans to total loans ratio is above 25% or those having a ratio of non-performing consumer loans (other than housing loans) to consumer loans (other than housing loans) above 8%.

See also "Turkish Regulatory Environment – Loan Loss Reserves."

Portfolio Supervision and NPLs

The Bank's credit monitoring department provides monthly reports to the Bank's senior management detailing all aspects of its credit activity, including the number of new problem loans, the status of existing non-performing loans and collections. The Bank's senior management pays close attention to the timeliness of debt repayments and the classified loans and contingent liabilities. Prompt action is taken by the appropriate departments having responsibility for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. Any overall deterioration in the quality of the Group's loan portfolio or increased exposure relating to off-balance sheet contingent liabilities is brought to the attention of the Bank's board of directors.

The determination of whether a repayment problem has arisen is based upon a number of objective and subjective criteria, including changes to the borrower's turnover in accounts held by the Group, changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfill the terms and conditions of its loan agreement and refusal of a borrower to co-operate in supplying current information.

Where a loan becomes impaired due to a delay in its principal or interest repayment of more than 90 days, the Bank classifies the loan as an NPL and classifies it under Group III as set out in the Turkish regulations. Accrued but uncollected interest must be deducted from revenue records. Interest on such a loan cannot be recorded as income unless collected. Furthermore, restructured loans are transferred to the "Renewed and Restructured Loans Account" according to collection performance as defined in the related decree (other loans that are not classified as NPLs may also be restructured).

Due to its high recovery rates, historically the Bank has, in general, given priority to the recovery of NPLs through negotiations and initiating legal proceedings as opposed to sales. The Bank currently prefers to use negotiations to work-out NPLs over legal procedure, as legal procedures are a lengthier and costlier process. The Bank's Loans Monitoring department is in charge of monitoring and negotiating NPLs, and initiating legal proceedings when necessary. As of the date of this Prospectus, there are no material negotiations or legal proceedings with respect to outstanding NPLs.

The entire principal amount of non-performing loans is added to provisions. The Group generally does not write-off non-performing loans, regardless of the amount of time they have been outstanding. When a loan is placed on non-performing status, interest income ceases to accrue. A non-performing loan is restored to accrual status when all arrears have been paid and it is considered likely that the customer will continue timely performance. A non-performing loan may also be restored to accrual status if it is determined that the repayment of principal and interest is reasonably assured on collection, such as in the case when all amounts due under a loan are fully collateralised by cash or marketable securities and actions have commenced to foreclose on the collateral; *however*, more typically the Group seeks to collect on non-performing loans and close its commitments. The following table sets forth details of the movements in the Group's NPL portfolio as of each of the indicated dates.

	As of 31 December			**As of 30 June**
	2011	**2012**	**2013**	**2014**
		(TL millions)		
Balance at the beginning of the period	**26,485**	**27,698**	**15,624**	**37,386**
Additions[(1)]	8,203	613	24,027	8,025
Recoveries[(2)]	(6,990)	(12,657)	(2,078)	(28,287)
Portfolio Sale	—	—	—	—
Write-off[(2)]	—	(30)	(187)	(26)
Balance at the end of the period	**27,698**	**15,624**	**37,386**	**17,094**

(1) Including foreign currency effect.
(2) Excluding portfolio sales.

As of 30 June 2014, restructured performing loans constituted 1% of the Bank's total performing loan portfolio. The ratio of renewed and restructured NPLs to total NPLs as of 31 December 2011, 2012 and 2013 and 30 June 2014 was 38%, 62%, 25% and 20%, respectively. The following table sets forth details of the Group's renewed and restructured loan accounts as of each of the indicated dates.

	As of 31 December			**As of 30 June**
	2011	**2012**	**2013**	**2014**
			(TL millions)	
Renewed and restructured loan accounts	10,554	9,736	9,515	3,433

Loan Portfolio Quality. The Group's ratios of non-performing loans to total cash loans and to total cash and non-cash loans were 0.44% and 0.23%, 0.41% and 0.37%, and 0.19% and 0.36%, respectively, as of 31 December 2011, 2012 and 2013 and 0.18% and 0.16%, respectively, as of 30 June 2014. The following table sets forth details of the Bank's NPL ratios as of each of the indicated dates.

	As of 31 December			**As of 30 June**
	2011	**2012**	**2013**	**2014**
Total NPL (TL thousands)	27,698	15,624	37,386	17,094
Coverage Ratio[(1)]	100.0%	100.0%	100.0%	100.0%
NPL Ratio	0.4%	0.2%	0.4%	0.2%

(1) Total amount of specific provisions *divided by* NPLs.

As of 30 June 2014, the Bank's NPL ratio was 0.2% (0.4% as of 31 December 2013), significantly lower than the sector average of 2.7% according to the BRSA.

NPL Loan Portfolio by Loan Type. The following table sets forth the Bank's NPLs by loan type as of the dates indicated:

	As of 31 December			As of 30 June
	2011	2012	2013	2014
		(TL thousands)		
Corporate	13,014	7,288	12,352	11,895
Other/SMEs/Miscellaneous Receivables	14,684	8,336	25,034	5,199
Total	**27,698**	**15,624**	**37,386**	**17,036**

The following table sets out certain information relating to the Group's provisions for losses on cash and non-cash credit exposure, which form a majority of the general loan loss provisions, as of the dates indicated:

	As of 31 December		
	2011	2012	2013
		(TL thousands)	
Cash	52,693	68,143	85,162
Non-cash commitments and contingencies	2,220	2,417	2,798
Others	3,578	6,868	8,623
Total	**58,491**	**77,247**	**96,583**

Collateral

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, there are five categories of collateral as set out in the table below.

Category of Collateral	Types	Evaluation Ratio
1	Treasury bonds, cash, deposits, etc.	100%
2	Mortgages, promissory notes based upon real commercial transactions, equities, corporate bonds, bank guarantees, etc.	75%
3	Personal guarantees, export documents, movable pledges, etc.	50%
4	Others	25%
5	Unsecured loans	—

Related Party Transactions

All related party transactions of the Bank are subject to the same approval procedures as those applicable to its other customers. In general, the related party transactions of the Bank include loans, marketable securities and derivative transactions.

Although development and investment banks (such as the Bank) are exempt from BRSA's requirements for exposures to related parties, the Group is within the limits imposed on commercial banks by Turkish banking regulations. Under the Banking Law, the total amount of loans to be extended by a bank to its risk group must not be more than 20% of its own funds. The Bank closely follows such regulatory requirements and internally applies its own set of restrictions in accordance with the Bank's policies and the covenant report ratios. As of 30 June 2014, the Bank's total net exposure to its risk group totaled TL 238 million, an amount corresponding to 2.5% of its own funds.

In addition, the Banking Law limits the total amount of loans to be made available by banks to all shareholders, irrespective of whether they are dominant partners or whether they own qualified shares (excluding those that have a less-than 1% share in the capital of a bank), and to persons who have indirect loan relations with such persons, which amount to 50% or more of their own funds. With a negligible amount of exposure to its shareholders and their risk group as of 30 June 2014, the Bank is well within the limits set by the BRSA.

Employees and Benefits

As of 30 June 2014, the Bank had 317 employees. The following table sets forth the number of employees as of the indicated dates.

	Employees
31 December 2011	350
31 December 2012	344
31 December 2013	314
30 June 2014	317

The Bank focuses on ensuring that employees have the level of education suitable for operational effectiveness and a career at the Bank. As of 30 June 2014, 3.7% of the Bank's employees had only a secondary school education, 61.5% were graduates of universities and 34.8% had postgraduate degrees.

Historically, the Bank has sought to maximise the opportunity for career development for its employees, with all positions filled through internal promotions and assignments as possible. The Bank's personnel turnover rate (*i.e.*, resignations excluding retirees) is very low, amounting to 9.1%, 11.1% and 6.3% in 2011, 2012 and 2013, respectively. As of 30 June 2014, the Bank's employees (excluding service staff) had, on average, approximately 7.9 years of experience in the Bank and an average age of approximately 35.4 years.

Employees of the Bank participate in the Bank's mandatory pension fund, of which each employee of the Bank is a member. The Bank and its employees contribute to such pension fund. Each employee contributes to the pension fund with a certain percentage of his/her monthly salary and the Bank contributes with an additional fixed amount for each employee. For pension funds such as this, Law No. 5754, which was published in the Official Gazette dated 8 May 2008 and numbered 26870, decrees that payment obligations to the contributors of bank pension funds those who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution within three years after the release date of this law; *however,* the initial three-year transfer period has been extended to 8 May 2015.

Legal Proceedings

In the normal course of its business, the Bank is party to certain legal proceedings, whether as plaintiff or defendant, but the Bank's management does not believe that any such proceedings, individually or taken together, are likely to have a material adverse effect on the business of the Group or on the results of its operations or financial condition.

Tax Audit

Similar to investigations to foundations established by financial institutions, the Tax Audit Committee (*Vergi Denetim Kurulu*) inspectors conducted an investigation for the payments made both by the Bank and its employees to Türkiye Sınai Kalkınma Bankası Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı (the "*TSKB Personnel Supplementary Pension Fund*"), which is a foundation established according to Turkish Commercial Law and Civil Law. The tax auditors claimed that payments made by the Bank should have been considered as wages for its employees and should have been included in the employees' tax base; therefore the Bank was subject to tax and penalties for TL 22 million for the years 2008, 2009, 2010 and 2011. The Bank's management believes that the Bank's practice was in compliance with the applicable legislation and that there is no legal basis for the tax administration's assessments. The Bank applied to tax courts to cancel these tax notifications and a substantial part of such court proceedings has been finalised, with some of the resulting decisions determined in favour of the Bank and others determined against the Bank.

Anti-Money Laundering Policies

Turkey is a member country of the FATF and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. Minimum standards and duties include customer identification, record keeping, suspicious activity reporting, employee training, an audit function and designation of a compliance officer. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, Financial Crimes Investigation Board. In Turkey, all banks and their employees are obliged to implement and fulfill certain requirements regarding the treatment of activities that may be referred to as money-laundering. See "Risk Factors – Political, Economical and Legal Risks Related to Turkey – Combating the Financing of Terrorism."

The main provisions of the applicable law include regulation of: (a) client identification, (b) reporting of suspicious activity, (c) training, internal audit and control, risk management systems and other measures, (d) periodical reporting, (e) information and document disclosure, (f) retention of records and data, (g) data access systems to public records, (h) protection of individuals and legal entities and (i) written declaration of beneficial owners by transacting customers, among other provisions. Suspicious transactions must be reported to the Turkish Financial Intelligence Unit, which is the Financial Crimes Investigation Board.

To ensure that the Bank is not used as an intermediary in money laundering and other criminal activities, an AML policy with the obligations of anti-money laundering ("*AML*") and combating the financing of terrorism rules, which is to be followed by all employees, has been approved by the Board (the most recent of such policies having been adopted on 31 July 2014). This policy has been prepared and issued for the purpose of guiding the practices of the Bank pursuant to the anti-laundering legislation and regulations. It describes and outlines the Bank's know-your-customer procedures, appointment of the compliance officer, monitoring principles of suspicious transactions and their reporting procedure, principles related with execution of freezing assets, periodical reporting, retention of data and employee training. All the Bank's subsidiaries must comply with the Bank's programmes, policies and procedures.

The Bank adopted the Code of Banking Ethics published by the Turkish Banks Association by its Board of Directors' resolution dated 16 March 2006 and further adopted new forms of the Code of Banking Ethics as revised by the Turkish Banks Association on 15 September 2010 and 25 September 2014. The Code of Banking Ethics is also applicable to the Board of Directors. Turkish and English versions of the Code of Banking Ethics are available on the Bank's website.

Client Identification

Under Turkish AML regulations, banks must verify the identification documents and other information provided by their permanent clients. The Bank's policy is that, as with other obliged parties covered by these regulations, all necessary measures should be taken in order to determine whether a transaction is being carried out for the benefit of a third party and, if so, to identify that third party. Moreover, all financial institutions are required by these regulations to identify the beneficiary owner of an account. It is also compulsory for banks to identify each natural person or legal entity that owns more than 25% of a legal entity.

The Bank's internal policies and systems prohibit the opening of anonymous accounts or the provision of services to entities who fail to provide sufficient identification.

Monitoring Suspicious Transactions

The Bank uses an in-house software system designed to detect unusual transactions in terms of money laundering and terrorism financing. The Bank's Internal Control Department analyses the alerts generated by the software and files suspicious transaction reports to the Financial Crimes Investigation Board as necessary. Several scenarios have been incorporated into the software of the Bank to detect suspicious transactions. Additionally, all foreign-currency transfers are also monitored daily by the Bank's Internal Control Department. The software system also screens the Bank's customers and transactions according to watch lists of individuals, companies or geographic locations issued by authorities such as OFAC, the EU and the United Nations. If any party in a transaction falls within any of the watch lists, the system creates an alert, which the Bank reviews, and then decides, on a case-by-case basis, whether to accept or refuse the transaction. Employees also report suspicious transactions in written form to a compliance officer. The Group also has in place an anti-bribery policy.

Compliance with Sanctions Laws

OFAC administers regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, SDNs and persons listed on OFAC's "sectoral sanctions" list, and similar rules have been put in place by other U.S. government agencies (including the State Department), the EU, the United Kingdom, the United Nations and Turkey. The Bank maintains policies and procedures designed to ensure that it complies with all such laws, regulations and orders (including those of OFAC and the FATF) regarding doing business with, maintaining accounts for, or handling transactions or monetary transfers for Sanction Targets.

Before opening an account for, or entering into any transaction with, a customer, the Bank ensures that such customer is not listed as a Sanction Target. In addition, the names of all customers and all incoming and outgoing transactions are continuously and automatically screened against the list of Sanction Targets. Accordingly, the Bank's current policies restrict the Bank from engaging in any prohibited business investments and transactions with Sanction Targets, including Iran and Syria.

Credit Ratings

Each of the Bank's credit ratings from Moody's and Fitch as of the date of this Prospectus is set out below. Each of these rating agencies is established in the European Union and is registered under Regulation (EU) No. 1060/2009, as amended. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Moody's (5 June 2014)

Financial Rating Note	D+
Outlook	Stable
Foreign Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Negative
Short-term Maturity	P-3
Domestic Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Negative
Short-term Maturity	P-3

Fitch (31 October 2013)

Long-term Maturity Foreign Currency (issuer)	BBB- (Stable)
Short-Term Maturity Foreign Currency (issuer)	F3
Long-term Maturity National Currency (issuer)	BBB (Stable)
Short-Term Maturity Foreign Currency (issuer)	F3
Support Note	2
National Support Note	BBB-
National Note	AAA
National Note Outlook	Stable

RISK MANAGEMENT

General

The Bank's management believes that assessment and control of risk is critical to the Group's success. The Bank closely identifies, measures, monitors and manages the risks arising from the Group's operations. The Bank monitors and manages the mismatch of maturities, the size and degree of interest rate and exchange rate exposure and its counterparty credit quality in order to minimise the effect of these risks on profitability. The Bank's current system of risk control and risk management has been in place since 2002. The Group's system of risk control and risk management is reviewed and modified as necessary and is integrated into the Group's internal systems for planning, management and control.

The Bank continues to maintain and further develop its risk management system, which has been established both to meet its internal risk management needs and to comply with its legal and regulatory requirements, including the Basel criteria and the BRSA's regulations. Risk management personnel are also involved in risk, control and compliance analysis processes of the Bank's new products and services. The process comprises not only new but also expanded or modified products and services that may have significant effect on the Bank's risk profile. During this process, the "Internal Systems" group conducts risk, control and compliance due diligence and, throughout the process, Risk Management personnel are responsible for ensuring that all potential risks that may affect the Bank's business strategy and risk profile are analysed and conveyed to the related parties.

Internal Systems

The Bank's "Internal Systems" group is comprised of the Bank's Board of Internal Auditors, the Internal Control division and the Risk Management division. This system has been structured based upon management's assessment of best market practices in Turkey and internationally and in accordance with the principles and organisational set-up required by Turkish regulations.

The Bank applies sophisticated risk management methods and techniques available in the international banking arena. Risk management is a dynamic process for the Group, evolving alongside developments in international practices and regulations.

The Board of Internal Auditors and the Internal Control and Risk Management divisions report to the Board of Directors through the Audit Committee.

Board of Internal Auditors

The Board of Internal Auditors aims to ensure that the activities of the Bank are fully and efficiently implemented in compliance with all applicable laws and corporate regulations. It also serves to secure the accuracy, reliability, completeness and timeliness of all financial and management information.

The scope of the audit process covers all activities and units of the Group. The branches, head office units, consolidated subsidiaries, information technology and banking processes are periodically audited in accordance with the Bank's audit plan, which is based upon risk-based methodology. Other than these periodic, risk-based audits, the Bank also performs special audits upon the request of the Board of Directors or the Audit Committee.

The audit process includes both the on-site and off-site examination of all material information, accounts, records and documents and all other factors that may affect the operations of the Bank. The Board of Internal Auditors also assesses the adequacy and effectiveness of the internal control, risk management and compliance systems.

Internal Control Department

The Internal Control division focuses on the internal control system of the Bank, which is structured within the BRSA framework. The Internal Control department controls all branches, the head office operations departments that are directly related to the Bank's main banking activities and all subsidiaries that are subject to consolidation.

The Internal Control division aims to examine, monitor, design and co-ordinate the Bank's internal control activities to enable banking activities to be carried out along the objectives, principles and provisions laid down by the Bank's management, and the legislation and regulations in effect, in a secure and efficient manner. Controls on compliance with the relevant laws and regulations, controls on assets, limits, approval and authorisation, IT controls and controls on financial reporting systems are implemented in accordance with the charter of the Internal Control division, with the objective of achieving a strong and efficient internal control system in relation to the Bank's banking operations.

Internal controllers conduct on-site control activities in the Bank's offices (including information systems divisions). On-site controls are supported with centralised computer-assisted control activities.

The duties and responsibilities of the Compliance Officer as set out in Turkey's law on the prevention of laundering the proceeds of crime and other relevant regulations are fulfilled by the Head of the Bank's Internal Control division. The activities and controls in relation to the prevention of money laundering and the financing of terrorism are executed in compliance with applicable legislation, regulation and standards, as well as the Bank's internal policies. The results of the compliance activities are also regularly evaluated by the Audit Committee through the annual reports.

Risk Management Department

The Risk Management Department is responsible for measuring, monitoring, analysing and reporting on both financial and non-financial risks. The Risk Management department covers credit risk management, asset liability risk management, market risk management, operational risk management and the management of other risks. The Risk Management department reports to the Audit Committee regularly and to the Board of Directors on a monthly basis.

Treasury Department

The Bank's Treasury department is responsible for managing and implementing the Bank's asset and liability positions on a day-to-day basis with a special emphasis on Turkish Lira and foreign currency liquidity, ensuring the availability of funds for all products and services provided by the Bank.

The Treasury department's activities are held in the domestic and international money, currency and capital markets. The Treasury department also has the responsibility of determining and publishing the fund transfer pricing ("*FTP*") of the Bank on a daily basis.

The Treasury department consists of four desks concentrating on different activities: (a) the Foreign Exchange and Money Markets Desk, (b) the Fixed Income Desk, (c) the Derivatives and Structured Products Desk and (d) the Treasury Marketing Unit Desk. All treasury transactions are required to comply with the Bank's treasury policies as established by the Bank's Board of Directors. Treasury transactions are controlled and reported by the Treasury Control Unit, which includes a member who is also within the Budget Control Department.

The Treasury department's activities include, among others, the following:

(a) managing the Bank's liquidity position,

(b) managing the Bank's Turkish Lira- and foreign currency-denominated fixed income portfolio,

(c) daily trading in order to enable the Bank to benefit from any advantageous market opportunities,

(d) managing the Bank's net foreign currency position, ensuring that its remains within the limits set by the Turkish banking authorities and the risk appetite of the Bank as set by its Board of Directors,

(e) managing the composition of any long or short foreign currency position,

(f) determining the Bank's Turkish Lira/foreign currency rates, which are used in pricing Turkish Lira/foreign currency transactions for clients,

(g) pricing money market transactions and the determination and publishing of the FTP of Turkish Lira- and foreign currency-denominated loans,

(h) utilising derivative instruments, such as currency and interest rates swaps and forward, futures and options transactions, for hedging the Bank's portfolio and other general hedging purposes, and

(i) developing new products according to changing market conditions and institutional client needs.

Asset and Liability Management

The main responsibility of the Treasury Department is to manage the Bank's assets and liabilities in accordance with the strategies set by the Asset and Liability Committee ("*ALCO*"). ALCO is responsible for forming and overseeing the implementation of the asset and liability management strategy of the Bank and its objective is to structure the Bank's balance sheet in view of liquidity needs and market risk (both interest rate and exchange rate risks), while ensuring that the Bank has adequate capital and is using its capital to maximise net interest income. ALCO generally meets monthly, or more frequently if necessary, to review the Bank's risk exposure, set the Bank's policy for risk exposure (arising from its positions in respect of loans and investment securities in terms of market risk, together with risks arising from inflation rates, the Bank's liquidity position, the Bank's capital adequacy and the macro-economic environment including domestic and international political and economic events), determine the Bank's strategies for interest rate levels and maturities and the pricing of loans. ALCO also supervises the implementation process relating to these decisions.

ALCO is chaired by the Bank's Senior Executive Vice President, who is also responsible for the Financial Analysis, Financial Institutions and Engineering departments and also includes the Executive Vice President who is in charge of the Treasury and Human Resources divisions. The other Executive Vice Presidents who attend ALCO meetings are those in charge of the following functions: corporate banking, loans, subsidiaries and financial control and budget and planning. The other members of the committee are heads of departments who are responsible for treasury, financial institutions, corporate marketing, project finance, loans and budget and planning.

Considering the Bank's strategy and the competitive environment, ALCO takes decisions to be implemented by the appropriate departments of the Bank for the optimal management of the Bank's balance sheet and cash flows, and then monitors the actual results.

Composition of the Group's main assets and liabilities

The Group's main assets are comprised of cash, loans and securities. As of 30 June 2014, the Group's total assets increased to TL 14,432.84 million from TL 13,439.22 million as of 31 December 2013. The following table sets forth details of the composition of the Group's main assets and liabilities by currency as of the indicated dates:

	As of 31 December				**As of 30 June**	
	2012		**2013**		**2014**	
	(TL)	*(Foreign Currency)*	*(TL)*	*(Foreign Currency)*	*(TL)*	*(Foreign Currency)*
Assets						
Cash and Banks	8%	3%	1%	9%	5%	7%
Loans	34%	88%	41%	85%	37%	88%
Securities Portfolio	48%	8%	48%	5%	43%	5%
Others	10%	1%	10%	1%	15%	-
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Liabilities						
Funds Borrowed(1)	85%	99%	86%	99%	86%	99%
Others	15%	1%	14%	1%	14%	1%
Total Liabilities	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

(1) Including interbank and repo funds.

The following table sets forth the composition of the Group's main assets and liabilities by maturity as of 30 June 2014:

	Less than or equal to one month	Greater than one month and less than or equal to three months	Greater than three months and less than or equal to 12 months	Greater than 12 months	Undistributed	Total
			(*TL Thousands*)			
Assets						
Cash and Banks	624,095	224,795	—	—	—	848,890
Loans[(1)]	456,766	353,161	1,585,545	7,144,029	—	9,539,501
Securities Portfolio	323,473	82,508	420,176	2,216,793	29,610	3,042,950
Total Assets	**2,404,444**	**660,464**	**2,007,114**	**9,360,822**	**29,610**	**14,432,844**
Liabilities						
Funds Borrowed[(2)]	2,386,897	207,762	603,878	8,139,042	—	11,787,579
Others	58,927	2,479	4,046	25,712	321,738	412,902
Total Liabilities	**2,895,824**	**210,241**	**607,924**	**8,164,754**	**321,738**	**12,200,481**

Notes: Derivative Financial Assets Held-for-Trading amounting to TL 2,973,058 thousand are included in the securities portfolio.
[(1)] Including factoring receivables.
[(2)] Including interbank and repo funds.

As part of its internal asset and liability management policy, the Bank seeks to structure its securities and loan portfolios such that the borrowing side matches the lending side in terms of total Turkish Lira/foreign currency exposures or fixed rate/floating rate exposures in order to minimise risk. The Bank also utilises derivative transactions in order to hedge itself against interest rate risk and foreign currency risk, as well as liquidity risk.

Market risk

Market risk is defined as the risk of loss in the trading portfolio of the Bank arising from movements in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads that may affect the Bank's assets, income or the value of its holdings of financial instruments. The objective of market risk management is to monitor and control market risk exposures within acceptable parameters, while optimising the return on risk.

The level of market risk to which the Bank is subject can be measured by either the "Standard Method" or the "Value at Risk Method." The "Standard Method" is used for legal requirements and the "Value at Risk Method" is used for internal reporting purposes. Although both methods are in accordance with local Turkish regulations as adopted from internationally accepted practices, the Bank uses the "Standard Method" due to legal reporting requirements.

Using the Standard Method, market risk measurements are carried out on a monthly basis. The results of these measurements are included in the Bank's public regulatory reports as well as in internal reports, which are addressed to the Bank's Board of Directors and senior management.

The Value at Risk ("*VaR*") Method is used to measure market risk in terms of interest rate risk, exchange rate risk, equity risk and volatility risk on a daily basis and is a part of the Bank's daily internal reporting procedure. Back-testing is carried out to determine the reliability of the daily market risk measurements under the VaR Method. The total VaR amount was calculated as TL 422,394 (0.02% of the Bank's equity) as of 31 December 2013 and TL 914,441 (0.04% of the Bank's equity) as of 30 June 2014.

In order to support the VaR model that measures the loss that may occur under ordinary market conditions, analyses are developed and performed based upon generally accepted scenarios. The potential impact of these scenarios on the value of the Bank's trading book is determined and the results are reported to the Bank's Board of Directors and senior management.

The ALCO, comprising members of senior management of the Bank, manages market risk by monthly meetings based upon reports prepared by the risk management and related executive departments. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, match the interest and duration structure of its assets and liabilities and keep a sufficient level of liquid assets. The limits, which are established for managing market risk within the framework of the Bank's asset and liability management risk policy, are monitored by the Audit Committee and reviewed in accordance with current market conditions.

Interest Rate Risk

A significant component of the Bank's asset and liability management risk policy is the management of interest rate risk. Interest rate risk is the possibility of loss in relation to the structural position arising from adverse movements in interest rates. The Bank is exposed to interest rate risk due to mismatches in the maturity or re-pricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets or liabilities mature or re-price in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive gap denotes asset sensitivity and normally means that an increase in interest rates would have a positive effect on net interest income, while a decrease in interest rates would have a negative effect on net interest income.

The potential effects of interest rate risk on the Bank's assets and liabilities, market developments, general economic environment and expectations are regularly addressed in ALCO meetings where further measures to reduce risk are implemented when necessary.

While interest rate risk in trading book is managed through VaR limits, interest rate risk in the banking book is monitored and controlled by the limit established on the ratio of structural interest rate risk to regulatory capital. Structural interest rate risk is quantified by calculating the change in the Bank's economic value of equity under standardised interest rate shocks (*i.e.*, *plus* 2% for foreign currency and 5% for local currency). The interest rate risk limits determined by the Board of Directors are monitored by the Risk Committee in accordance with the Bank's asset and liability management policy. Furthermore, scenario analyses that are developed based upon future predictions are conducted for managing interest rate risk.

The following table sets forth the Group's "re-pricing" gap, which is the difference between the interest rate sensitivity of assets and the interest rate sensitivity of liabilities, as of 31 December 2013:

	Less than or equal to one month	Greater than one month and less than or equal to three months	Greater than three months and less than or equal to 12 months	Greater than 12 months	No Interest	Total
			(TL thousands)			
Cash balances and balances with the Central Bank	—	—	—	—	345,040	345,040
Balances with banks	346,369	59,422	—	—	15,513	421,304
Trading securities	8,638	13,816	16,777	19,821	1,196	60,248
Interbank funds sold	50	—	—	—	—	50
Securities available for sale loans	995,066	721,674	474,783	730,506	51,029	2,973,058
Loans[1]	1,467,507	3,460,688	3,517,943	549,961	52,999	9,049,098
Other assets	3,099	4,495	—	—	582,824	590,418
Total assets	**2,820,729**	**4,260,095**	**4,009,503**	**1,300,288**	**1,048,601**	**13,439,216**
Interbank funds borrowed	1,810,249	—	45,955	—	—	1,856,204
Miscellaneous payable	—	—	—	—	89,769	89,769
Funds borrowed from other financial institutions	3,019,458	3,231,546	2,215,319	765,473	—	9,231,796
Other liabilities	24,398	3,323	12,895	23,242	2,197,589	2,261,447
Total liabilities	**4,854,105**	**3,234,869**	**2,274,169**	**788,715**	**2,287,358**	**13,439,216**
Asset/liability gap	(2,033,376)	1,025,226	1,735,334	511,573	(1,238,757)	-
Off-balance sheet gap	117,536	88,022	19,288	(239,589)	—	(14,743)
Total gap	**(1,915,840)**	**1,113,248**	**1,754,622**	**271,984**	**(1,238,757)**	**(14,743)**

(1) Includes factoring receivables.

Liquidity risk

In general, liquidity risk is the risk that an entity will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable. Liquidity risk is a substantial risk in Turkish markets, which have historically exhibited significant volatility.

The Bank's principal sources of funding are loans from multilaterals and other lenders. The average maturity of the corporate loans made by the Bank is shorter than the average maturity of the funding that the Bank receives from multilaterals. As a result of the Bank's long-term, wholesale funding base, the Bank's liquidity gap is usually negative in its overnight through one week position due to its short-term repo transactions. Thereafter, the liquidity gap generally becomes positive due to the Bank's securities portfolio and loan instalments. After approximately five years, the liquidity gap turns negative due to the long-term funding nature of the Bank's funding.

In order to meet the liquidity requirements that may emerge from market fluctuations, considerable attention is paid to the need to preserve liquidity and efforts in this respect are supported by projections of Turkish Lira and foreign currency cash flows. Based upon cash flow projections, prices are differentiated for different maturities and measures are taken accordingly to meet liquidity requirements. Moreover, potential alternative sources of liquidity are determined where required for extraordinary circumstances. Foreign currency, total liquidity adequacy and liquidity coverage ratios, which are subject to legal reporting requirements, are also used to monitor liquidity on an ongoing basis.

Within the framework of the Bank's asset and liability management risk policy, internal limits established for liquidity risk management are monitored by the Audit Committee and, in the case of extraordinary situations where prompt action is required to be taken due to unfavourable market conditions, emergency measures and funding plans related to liquidity risk are put into effect.

The major objectives of the Bank's asset and liability management risk policy are to ensure that sufficient liquidity is available to meet its commitments to its clients, to satisfy the Bank's other liquidity needs and to ensure compliance with the capital adequacy and other applicable Central Bank regulations. Liquidity risk arises in the general funding of the Bank's financing and trading activities and in the management of investment positions. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

As of 30 June 2014, the Group's borrowings were 1% Turkish Lira-denominated. The funds supplied from DFIs are denominated in foreign currencies (principally U.S. Dollars and Euro) and such funds are also provided by the Bank to its borrowers as foreign currency-denominated loans. Thus, only a very moderate foreign exchange mismatch for loans exists. In general, the foreign exchange short position of the Bank is either at low levels or the Bank has a foreign exchange long position.

The following table sets forth the original maturity profile of the Group's borrowings (including accrued interest that may be payable thereon) as of each of the indicated dates:

	As of 30 June	As of 31 December		
	2014	2013	2012	2011
		(TL thousands)		
No term	—	—	—	—
Turkish Lira-denominated	—	—	—	—
Foreign currency-denominated	—	—	—	—
Up to three months	**835,180**	**551,813**	**372,934**	**499,805**
Turkish Lira-denominated	75,526	74,275	142,819	23,763
Foreign currency-denominated	759,654	477,538	230,115	476,042
Greater than three months and less than or equal to 12 months	**603,878**	**849,876**	**543,754**	**555,781**
Turkish Lira-denominated	—	—	—	—
Foreign currency-denominated	603,878	849,876	543,754	555,781
Over 12 months	**8,139,042**	**7,830,107**	**6,202,042**	**5,824,949**
Turkish Lira-denominated	—	—	—	—
Foreign currency-denominated	8,139,042	7,830,107	6,202,042	5,824,949
Total borrowings	**9,578,100**	**9,231,796**	**7,118,730**	**6,880,535**
Turkish Lira-denominated	75,526	74,275	142,819	23,763
Foreign currency-denominated	9,502,574	9,157,521	6,975,911	6,856,772

Currency Risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that a bank is subject to due to the exchange rate movements in the market.

The Bank effectively hedges its foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

Currency risk is managed by internal currency risk limits, which are established by the Board of Directors as a part of the Bank's internal risk policies. ALCO meets regularly to take necessary decisions for managing exchange rate and parity risks within the scope of the Bank's asset and liability management risk policy. The Bank manages foreign currency risk through monthly ALCO meetings by evaluating limits on the positions that can be taken by the Bank's Treasury Department. These limits are regularly reviewed by the Board of Directors and are amended from time to time to meet the growing business needs of the Bank.

The general net foreign currency positions of Turkish banks are also regulated by the BRSA and this figure, in absolute terms, cannot exceed 20% of the relevant bank's shareholder equity.

Both the Standard Method and VaR Method are used in order to measure currency risk. Using the Standard Method, currency risk measurements are carried out on a monthly basis and the results are used for calculating the regulatory capital requirement of the Bank. Risk measurements within the context of the VaR Method are performed on a daily basis using historical and Monte Carlo simulation methods. Furthermore, scenario analyses are conducted to support the VaR calculations.

The results of these currency risk measurements are reported to senior management and the risks are closely monitored by taking into account current market and economic conditions.

A 10% weakening of the Turkish Lira against foreign currencies as of 30 June 2014 and 31 December 2013 and 2012 would have changed profit or loss by the amounts shown in the table below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	As of 30 June	**As of 31 December**	
	2014	**2013**	**2012**
		(TL thousands)	
US$	(1,841)	18,026	1,022
Euro	(10,873)	(36,703)	(8,857)
Other currencies	110	126	134
Total	**(12,604)**	**(18,551)**	**(7,701)**

Credit Risk

In general, credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank places emphasis mainly on the payment ability and cash generating ability of the borrower in any given transaction, and also obtains sufficient collateral from borrowers including, wherever possible, cash collateral, mortgages or security over other assets. The Bank seeks to manage its credit risk exposure through the diversification of its lending activities to avoid undue concentration of risks with individuals or groups of clients in specific locations or businesses. Development and investment banks (such as the Bank) are not subject to the credit limits imposed by the BRSA; *however* the Bank's Board of Directors has approved certain principles and internal credit limits based upon an internal rating system developed in-house by the Bank.

The Bank has implemented centralised credit approval processes and loan proposals are evaluated and monitored by the relevant authorised departments (see "Business of the Group – Lending Policies and Procedures" and "Business of the Group – Lending Policies and Procedures – Collateral" above).

Credit risk arising from treasury transactions is monitored on each business day. Exposure from over-the-counter derivative transactions is subject to daily margin call on counterparty basis under the relevant credit support annex agreements. All of the credit risk arising from over-the-counter derivative transactions is collateralised with cash.

Operational Risk

Operational risk is the risk of loss arising from faults or deficiencies in the regular operations of a bank, including problems with systems, hardware, technology and communication infrastructures, national disasters, terrorist attacks or earthquakes, as well as with respect to personnel responsibilities for monitoring, controlling, reporting, taking action and being diligent.

The Bank uses the "Basic Indicator Approach" to assess capital for operational risk. Banks using the "Basic Indicator Approach" are required to hold capital for operational risk equal to a fixed percentage (*i.e.*, 15%) of the average of the previous three years' positive annual gross income (which is defined as net interest income *plus* net non-interest income). Figures for any year in which the annual gross income is negative or zero are excluded from both the numerator and denominator when calculating the average. The maximum internal limit for operational risk capital is 10% of the Bank's total risk-weighted assets. If the limit exceeds 8%, then it is immediately reported to the Bank's senior management with the early warning procedure.

Risks identified as a result of operational risk assessments are reported to the Audit Committee and Board of Directors. In terms of quantitative techniques, the Risk Management department employs a range of diagnostic tools, such as key risk indicators, together with data analysis. Operational error records are used for this purpose.

Risks derived from information technologies are primarily assessed within the scope of the Bank's operational risk management analysis. It is essential that those risks, which could be seen as multipliers of other risks derived from activities of the Bank, are measured, closely monitored and controlled within the framework of the Bank's integrated risk management.

Subsidiaries' Risk Management

The Bank has a group-wide risk policy set by the Bank's Board of Directors. The Risk Management department monitors both internal and legal risk limits and other risks relating to subsidiaries falling within the scope of the group-wide risk policy. In addition to this, the Bank's subsidiaries also have their own internal, sector-specific risk policies, limits and procedures. The Bank's Risk Management department reports to the Audit Committee every three months in order for the Audit Committee to evaluate the Group's risk level on a consolidated basis.

Liquidity and Funding

The primary funding for the Bank comes from DFIs, syndicated loans, bilateral loans and money market transactions, including repo transactions. Loans are the Group's main source of both Turkish Lira and foreign currency funding, with a 97% share in total liabilities as of 30 June 2014, with TL 11.8 billion.

In terms of Turkish Lira, the primary funding sources currently available for the Bank are the repo and reverse repo market of the Borsa İstanbul, the over-the-counter interbank money market, the interbank money market of the Central Bank, collateralised loans and bill and bond issues. In June 2010, the Bank's Board of Directors authorised the issuance of discounted bonds with a value of up to TL 0.2 billion. In August 2010, the Bank issued discounted bonds with a total value of TL 200 million, but has not since issued further discounted bonds.

As a last resort, the Bank also has the ability to borrow funds through the Central Bank. The Bank's limits for these kind of transactions are determined by the Central Bank and generally carry a maturity of up to one month.

The Bank has been accessing the international markets for syndicated loan facilities since 2005. As of 30 June 2014, the balance of the outstanding syndicated term loan facilities obtained by the Bank was approximately US$133 million.

In addition to the above, the Bank has entered into various transactions with DFIs, export credit agencies and other lenders, principally for the purposes of project financing and the financing of small- to medium- size enterprises, renewable energy, energy efficiency projects, sustainable tourism or certain imports. The following tables show the Group's sources of funding as of the indicated dates and their respective changes period over period.

	As of 30 June 2014	**% Change**	**As of 31 December 2013**	**% Change**	**As of 31 December 2012**
			(TL thousands)		
Repos & Money Market	2,209,479	19.0%	1,856,204	23.5%	1,502,628
Funds Borrowed[(1)]	9,578,100	3.8%	9,231,796	29.7%	7,118,730
Other	412,902	23.7%	333,682	5.3%	316,958
Equity	2,232,363	10.6%	2,017,534	5.1%	1,919,002
Total	**14,432,844**	**7.4%**	**13,439,216**	**23.8%**	**10,857,318**

[(1)] Including subordinated loans.

	As of 30 June	As of 31 December	
	2014	2013	2012
		(%) of Total	
Repos & Money Market	15.3%	13.8%	13.8%
Funds Borrowed[1]	66.4%	68.7%	65.6%
Other	2.9%	2.5%	2.9%
Equity	15.5%	15.0%	17.7%
Total	**100.0%**	**100.0%**	**100.0%**

(1) Including subordinated loans.

Capital Adequacy

The Bank is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank for International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures (commitment and contingencies).

Pursuant to the 2006 Equity Regulation, which was replaced by the 2013 Equity Regulation, the Bank's total capital ratio was (through the end of 2013) calculated by dividing: (a) the sum of its "Tier I" capital, which comprises its share capital, reserves, retained earnings, profit and revaluation surplus for the current periods, plus its "Tier II" capital, which comprises general provisions, by (b) the aggregate of its risk-weighted assets and risk-weighted off-balance sheet exposures.

Within the context of the implementation of the Basel III framework in Turkey, the 2006 Equity Regulation was replaced by the 2013 Equity Regulation as noted above. As a result, the calculations regarding capital adequacy for periods from 1 January 2014 are performed in accordance with the 2013 Equity Regulation and other regulations newly enacted and/or amended by the BRSA. In accordance with these guidelines, the Bank must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio. As of 30 June 2014, the Bank's regulatory capital adequacy ratio was 18.8% and the Group's regulatory capital adequacy ratio was 19.1%, each significantly exceeding the minimum legal ratio of 8.0%.

See "Turkish Regulatory Environment - Capital Adequacy" for additional information.

MANAGEMENT

In accordance with the Bank's articles of incorporation and the relevant laws of Turkey, the Bank is ultimately controlled by its shareholders through its General Assembly. According to the Bank's articles of incorporation, general resolutions at the General Assembly are adopted by affirmative votes of an absolute majority of the votes present at the meeting; *provided* that a quorum is attained.

The Bank comprises 27 departments. Three of these departments – the Board of Internal Auditors, Internal Control and Risk Management – report directly to the Board of Directors. The other departments are managed by the Executive Committee comprising the CEO and Deputy CEOs.

Board of Directors

According to the Bank's articles of incorporation, the Board of Directors consists of at least five members, as elected by the shareholders at the General Assembly, with the exception of the Chief Executive Officer who is appointed by the Board of Directors. The Chief Executive Officer is an obligatory member of the Board of Directors. Each director serves for a term of three years. The responsibilities of the Board of Directors include: (a) administration of the Bank's real estate, securities and properties, (b) executing all kinds of agreements and transactions related with the Bank's activities, (c) ensuring the orderly performance of the Bank's internal operations, (d) keeping the books and accounts necessary for the Bank's operations and submitting such books, balance sheet, profit and loss accounts to the General Assembly, (e) issuing a report, reflecting the commercial, industrial and financial status of the Bank, including a summary of the Bank's transactions performed within the year at year-end and (f) implementing the General Assembly resolutions.

Under the Bank's articles of incorporation, the Board of Directors must hold their meetings at least once a month at the address where the Bank's head office is located. They may also hold meetings in any other suitable place; *provided* that more than one half of the Board members concur.

The presence of a majority of the Board of Directors is required for the validity of a board meeting. Resolutions are adopted by the majority of the members present and, in the event of an equality of votes, the relevant matter is postponed until the subsequent meeting. Should the votes again be equal, the proposal in question is considered as rejected.

Recent amendments to the Turkish Commercial Code allow the appointment of a legal entity as a member of the board of directors of a joint stock company. Under such rules, a legal entity on a board of directors would be represented by a natural person designated by it. Alternatively, natural persons can be members of the board. Notwithstanding this recent change, the BRSA's Board has issued a decision prohibiting the appointment of a legal entity as a member of the board of directors of any joint stock company that it regulates, and thus members of the Bank's board can still only be natural persons.

The business address of each of the members of the Board of Directors is Meclisi Mebusan Cad. No 81 Fındıklı 34427 İstanbul, Turkey. As of the date of this Prospectus, the Board of Directors comprises the following:

Name	Position	Year first appointed to the Board
Adnan Bali	Chairman	2011
Kemal Serdar Dişli	Deputy Chairman	2007
Özcan Türkakın	Board Member & CEO	2013
Murat Bilgiç	Board Member	2005
E. Burhanettin Kantar	Board Member	2005
Uygar Şafak Ögün	Board Member	2010
Durmuş Yılmaz	Board Member	2012
Halil Aydoğan	Board Member	2013
Kamil Yılmaz	Board Member	2014
Ebru Özşuca	Board Member	2014

Adnan Bali (Chairman)

Born in İslahiye in 1962, Mr. Bali graduated from the Economics Department of the Faculty of Economics and Administrative Sciences of Middle East Technical University. Mr. Bali started his career at İşbank's Board of Inspectors in 1986. Mr. Bali was appointed as Deputy Manager in 1994, Unit Manager in 1997 and the Head of the Treasury Department in 1998. Mr. Bali was positioned as İşbank's Şişli Branch Manager in 2002, Galata Branch Manager in 2004 and Deputy Chief Executive on 30 May 2006. Mr. Bali was appointed as the Chief Executive Officer of İşbank on 1 April 2011. Mr. Bali has been a member of the Bank's Board of Directors since 15 April 2011 and the Chairman of the Board of Directors since 21 April 2011.

Kemal Serdar Dişli (Deputy Chairman)

Born in Şanlıurfa in 1964, Mr. Dişli graduated from the Public Administration Department of the Faculty of Economics and Administrative Sciences of Hacettepe University. He began his professional career as an officer at İşbank in 1988 and the same year was appointed as an Assistant Inspector. After serving as the Deputy Manager and the Group Manager in the Accounting and Financial Operations department between 1988 and 2002, he was promoted to be the Region Manager at Marmara Region Directorate, the Manager at the Bursa Branch and the Group Manager of the Corporate Banking and Marketing Department. Mr. Dişli currently serves as the Manager of İşbank's Kozyatağı Corporate Branch and has been a member of the Bank's Board of Directors since 25 May 2007. He also has been a member of the Audit Committee since April 2008 and the Corporate Governance Committee since May 2014.

Özcan Türkakın (Board Member and Chief Executive Officer)

Born in Afyon in 1958, Mr. Türkakın graduated from the Department of Economics of the Faculty of Administrative Sciences of Boğaziçi University and received a master's degree from the same department. He joined İşbank in 1984 as an Assistant Economics Specialist at the Economic Research and Planning Department. Mr. Türkakın was promoted as an Assistant Manager of İşbank's Capital Markets Department in 1992 and as the Group Manager of the same department in 1995. He served as the General Manager of İş Yatırım Menkul Değerler A.Ş. for five years and subsequently served as the Deputy Chief Executive of İşbank between 2002 and 2013. Mr. Türkakin has been a member of the Bank's Board of Directors and the Bank's CEO since 1 February 2013.

Murat Bilgiç (Board Member)

Born in Ankara in 1968, Mr. Bilgiç graduated from the International Relations Department of the Faculty of Economics and Administrative Sciences of Middle East Technical University. Mr. Bilgiç completed his master's degree in banking at the University of Birmingham. He joined İşbank as an Assistant Inspector in 1990 and, after serving in various positions at İşbank, became the Regional Manager of the Corporate Loans Department in 2002. Since 2008, he has been working as the Manager of the Corporate Loans Department. Mr. Bilgiç has been a member of the Bank's Board of Directors since 23 March 2005. He also has been a member of the Audit Committee since December 2005.

E. Burhanettin Kantar (Board Member)

Born in Trabzon in 1963, Mr. Kantar graduated from the Public Administration Department of the Faculty of Economics and Administrative Sciences of Middle East Technical University. Mr. Kantar started his professional career at İşbank as an Assistant Inspector at the Board of Inspectors in 1988. Mr. Kantar was appointed as an Assistant Manager at İşbank's Participations Department in 1997. In May 2005, he was appointed as the Manager of the same department, where he is still serving as the Group Manager. Mr. Kantar has been a member of the Bank's Board of Directors since 23 March 2005. He also has been a member of the Remuneration Committee since December 2012.

Uygar Şafak Öğün (*Board Member)*

Born in Ankara in 1974, Mr. Öğün graduated from the Business Administration Department of Bilkent University in 1995 and began his professional career at İşbank's Board of Inspectors. In 2002, Mr.Öğün completed his master's degree in international banking and finance at the University of Birmingham. Mr. Öğün continued his career at İşbank as the Deputy Manager of the Directorate of Corporate Marketing in 2005 and was appointed as the Deputy Manager of the Board of Inspectors in 2007. Mr. Öğün was appointed as İşbank's Corporate Banking Sales Manager in 2008. Since 29 September 2009, he has been serving as the Manager of İşbank's Corporate Banking, Marketing and Sales Department. Mr. Öğün has been a member of the Bank's Board of Directors since 2 April 2010. He also has been a member of the Corporate Governance Committee and Remuneration Committee since March 2014.

Durmuş Yılmaz (Board Member)

Born in Uşak in 1947, Mr. Yılmaz studied three years at Ankara University Law Faculty and subsequently studied economics in England with the scholarship from the Ministry of National Education in the 1970s. Mr. Yılmaz has a bachelor's degree in economics from City University of London and a master's degree from University of London. After working for the Ministry of Trade, Mr. Yılmaz joined the Central Bank in 1980 and worked at the Foreign Exchange Department, Foreign Debt Rescheduling Department and the Exchange Rate and Foreign Exchange Reserve Management Department. Mr. Yılmaz served as the Deputy Director of the Foreign Exchange Transactions Division, Director of the Interbank Money Markets Division, Director of the Balance of Payments Division, Deputy Executive Director of the Markets Department Responsible for the Foreign Exchange Risk Management, Credits, Foreign Exchange and Banknotes Markets and Open Market Operations Divisions and the Executive Director of the Workers' Remittances department between 1993 and 2003. Mr. Yılmaz became a member of the Central Bank's Board on 7 April 2003 and was appointed as the Head of the Central Bank on 18 April 2006. He completed his five year term on 20 April 2011 and was assigned as the Chief Economy Consultant for the Turkish Presidency. Mr. Yılmaz has been a member of the Bank's Board of Directors since 26 March 2012.

Halil Aydoğan (Board Member)

Born in Afyonkarahisar in 1950, Mr. Aydoğan graduated from the Economics Department of İstanbul University and started working for Vakıfbank in 1977. After working in various departments and positions, Mr. Aydoğan served as an Assistant General Manager of Vakıfbank between 1996 and 1999 and as the General Manager of Vakıf Finansal Kiralama A.Ş. between 1999 and 2000. Mr. Aydoğan was elected as a member of the Parliament twice, during the 22nd and 23rd terms of Turkish Grand National Assembly. Mr. Aydoğan served as the Chairman of Vakıfbank's board of directors between January 2012 and March 2013 and was appointed as the General Manager of Vakıfbank on 29 March 2013. Since 20 December 2013, Mr. Aydoğan has been a member of the Bank's Board of Directors.

Prof. Dr. Kamil Yılmaz (Independent Board Member)

Born in Oba in 1964, Mr.Yılmaz graduated from the economics department of Boğaziçi University in 1987 and completed his master's and doctorate degrees in economics in 1990 and 1992, respectively, at Maryland University. Mr.Yılmaz worked at the Research Department of the World Bank between 1992 and 1994 and has been working as an academician at the Faculty of Economics and Administrative Sciences of Koç University since 1994. He also served as a visiting professor of economics at the University of Pennsylvania between the years 2003-2004 and 2010-2011. Having played an active role in the establishment of TÜSİAD (Turkish Industrialists and Businessmen Association) (*Türkiye Sanayi ve İşadamlari Derneği)* Economic Research Forum in 2005, he served as the Forum Director between the years 2007 and 2009. Mr.Yılmaz, who has had various scientific articles and books related with international finance, international trade, macroeconomics and the Turkish economy published in local and international magazines, was honored with the Encouragement Award in Social Sciences and Humanities by the Turkish Academy of Sciences in 2003. He has been serving as an independent board member of İş B Tipi Yatırım Ortaklığı A.Ş. since 2012 and as an independent member of the Bank's Board of Directors since 3 April 2014.

Ebru Özşuca (Board Member)

Born in Ankara in 1971, Ms. Özşuca graduated from the Economics Department of the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1992. Ms. Özşuca holds a master's degree in international banking from Middle East Technical University and in finance from Southampton University. Having started her professional career at İşbank as an assistant specialist in the Treasury department, she was promoted as an assistant manager and subsequently as a unit manager of the same department. Between 2007 and 2011, Ms. Özşuca worked as the Head of the Corporate Banking Products Department. In 2011, Ms. Özşuca was appointed as the Head of the Treasury at İşbank. Ms.Özşuca has been a member of the Bank's Board of Directors since 21 April 2014.

Executive Committee

The Bank's Executive Committee consists of the Chief Executive Officer and the Executive Vice Presidents. The meetings of the Executive Committee are held once a month; *however*, the Chief Executive Officer may call for a meeting whenever it is necessary. Resolutions are made on a majority basis and require the approval of the Chief Executive Officer.

The Executive Committee is responsible for, among other things, preparing the strategies, policies, targets and the business plan of the Bank and assessing the Bank's performance. Members of the Executive Committee are:

Name	Position	Date of Appointment
Özcan Türkakın	Chief Executive Officer	2013
Orhan Beşkök	Senior Executive Vice President	2002
Burak Akgüç	Executive Vice President	2004
Ömer Eryılmaz	Executive Vice President	2006
Çiğdem İçel	Executive Vice President	2006
Ufuk Bala Yücel	Executive Vice President	2007
Gökhan Çanakpınar	Executive Vice President	2012
Ece Börü	Executive Vice President	2013
Hakan Aygen	Executive Vice President	2013

Additional information on each of these Executive Vice Presidents is set forth below:

Orhan Beşkök

Born in Ankara in 1955, Mr. Beşkök graduated from the Economics Department of Central London Polytechnic University and completed his master's degree in economics at the London School of Economics. After serving in various positions at the Bank, he was appointed as the Head of the Economic Analysis department in 1995. Mr. Beşkök was appointed as an Executive Vice President of the Bank in 2002 and is currently responsible for the Financial Analysis, Financial Institutions and Engineering Departments. Mr. Beşkök was promoted to Senior Executive Vice President on 1 January 2011.

Burak Akgüç

Born in İstanbul in 1964, Mr. Akgüç graduated from the Political Science Department of Boğaziçi University. Mr.Akgüç joined the Bank as a Specialist at the Financial Analysis department in 1991. After serving in a variety of positions, Mr. Akgüç was appointed as the Head of the Loan and Investments Department in 2001. Mr.Akgüç was promoted as an Executive Vice President in 2005 and is currently responsible for the Corporate Banking and Project Finance departments.

Ömer Eryılmaz

Born in Giresun in 1964, Mr. Eryılmaz graduated from the Faculty of Business Administration of İstanbul University and began his professional career at Sinai Yatırım Bankası in 1986. Mr. Eryılmaz was appointed as the Bank's Manager of the Financial Control Department in 1999, the Head of the Risk Management Department in 2002 and the Head of the Board of Internal Auditors in 2003. Mr. Eryılmaz was appointed as the Executive Vice President of the Bank in 2006 and is currently responsible for the Financial Control and Budget, Planning & Investor Relations Departments. He also has been a member of the Corporate Governance Committee since May 2014.

Çiğdem İçel

Born in Eskişehir in 1966, Ms. İçel graduated from the Business Administration Department of Boğaziçi University. Ms. İçel began her professional career as an Assistant Investment Advisor at the Bank's Treasury Department. After serving in a variety of positions, she was appointed as the Head of the Treasury and Correspondent Banking Department in 1998. Ms. İçel was promoted as the Executive Vice President in 2006 and was responsible for the Operations Division, which includes the Loan Operations and Treasury & Capital Markets Operations Departments. Ms. İçel is currently responsible for the Treasury and Human Resources Division, which includes the Treasury, Talent Management & Corporate Communication and Human Resources Departments.

Ufuk Bala Yücel

Born in İstanbul in 1964, Ms. Yücel graduated from the Political Science Department of Boğaziçi University. Ms. Yücel began her professional career in 1987 and after working in several banks for fifteen years, she joined the Bank as the Head of the Loans Department in 2002. She was appointed as Group Manager in 2007 and as an Executive Vice President in 2008. Ms. Yücel is currently responsible for the Loans Division.

Gökhan Çanakpınar

Born in Ardahan in 1964, Mr. Çanakpınar graduated from the Department of Business Administration of Middle East Technical University. Mr. Çanakpınar began his professional career at İpekiş Mensucat as System Analyst in 1988 and served as a Project Manager at İşbank for six years. In 1995, he began serving at the Bank as a System Analyst and was appointed as the Head of the Application Development Department in 2000. Mr. Çanakpınar was promoted to be the Director of the Information Technology Unit in 2011. Since 10 January 2012, he has been working as the Executive Vice President responsible for Information Technology and Operations.

Ece Börü

Born in İstanbul in 1966, Ms. Börü graduated from the Management Engineering Department of İstanbul Technical University in 1988. Ms. Börü joined the Bank as an Assistant Specialist in the Financial Controls Department in 1989. She was promoted to be the Head of the Financial Controls Department in 2000 and the Head of the Board of Internal Auditors in 2006. Since 28 November 2013, Ms. Börü has been serving as the Executive Vice President responsible for Enterprise Architecture.

Hakan Aygen

Born in Konya in 1965, Mr. Aygen graduated from the Management Engineering Department of İstanbul Technical University. Mr.Aygen started his professional career in 1989 in the non-financial sector and joined the Bank in 1995 as an Assistant Specialist at the Financial Analysis Department. In 1996, Mr. Aygen completed his master's degree in management and organisation at Marmara University. Mr. Aygen was appointed as the Head of the Corporate Finance Department in 2006 and was promoted as the Group Head of the same department in 2011. Following receipt of his doctorate degree in accounting finance from Marmara University in 2013, Mr. Aygen was promoted as the Executive Vice President for the Corporate Finance and Research Department on 28 November 2013.

Board Committees

In addition to the Executive Committee, the Board of Directors has established the Audit Committee, the Corporate Governance Committee and the Remuneration Committee.

Audit Committee. The Audit Committee consists of two members that serve on the Board of Directors. The Audit Committee members are selected by the Board of Directors and currently consist of Mr. Murat Bilgiç and Mr. Kemal Serdar Dişli. The Audit Committee informs the Board of Directors of the results of its activities and the measures that are required to be taken by the Bank, and offers its opinions on other matters that it considers to be significant for the Bank to conduct its business in a safe manner.

The Audit Committee is in charge of:

(a) ensuring that the Bank's internal audit and risk management systems function effectively and efficiently and that the Bank's accounting and reporting systems operate in compliance with the related regulations,

(b) carrying out the preliminary assessment of external auditors and monitoring on a regular basis the activities of the appointed auditors,

(c) ensuring that the internal audit functions of subsidiaries that are subject to consolidation are being performed in line with the related regulations,

(d) reporting and advising to the Board of Directors in relation to the operations and activities of the Bank's internal audit, risk management, internal control units and external auditors and the measures deemed necessary to be taken in order for the Bank to operate in a manner compliant with the relevant external and internal regulations and policies,

(e) where necessary, gathering information, reports and documents from the relevant units of the Bank or its supporting service providers and independent auditors and, subject to the approval of the Board of Directors, receiving consulting service from persons who are experts in their respective fields,

(f) evaluating the information and reports received from independent auditors and divisions that fall under the internal systems with respect to their activities, and

(g) analysing and submitting quarterly internal audit reports to the Board of Directors, which are prepared by the internal auditors according to the Banking Law.

Corporate Governance Committee. As per the resolution of the Board of Directors dated 30 September 2009, the Corporate Governance Committee was established for the purpose of assuring that the Bank complies with corporate governance principles. The Corporate Governance Committee consists of two members of the Board of Directors and one member from the executive committee. Mr. Uygar Şafak Öğün, Mr. Kemal Serdar Dişli and Mr. Ömer Eryılmaz are the current members of Corporate Governance Committee. The committee's principal duties and responsibilities include:

(a) ensuring that the corporate governance principles are implemented and advising the Board of Directors of the measures deemed necessary to be taken in order for the Bank to operate in a manner compliant with the corporate governance principles.

(b) ensuring the independency and efficiency of the Board of Directors by supervising compliance with regulations related with conflict of interests among the committee members, the members of the Board of Directors, the Executive Committee or other employees,

(c) ensuring that the Bank's public disclosures are in accordance with the relevant laws and regulations and the Bank's information policy principles,

(d) developing policies, strategies and a transparent system for the purpose of determining, assessing and training the candidates to the Board of Directors,

(e) implementing the Bank's ethics rules and corporate governance principles internally,

(f) preparing an assessment report to the Board of Directors,

(g) advising on independent nominees for the Bank's Board of Directors,

(h) advising the Board of Directors on the remuneration to be provided to the members of the Board of Directors,

(i) where necessary, subject to the approval of the Board of Directors, receiving consulting service from persons who are experts in their respective fields, and

(j) reporting to and advising the Board of Directors in relation to the results of its activities and the measures deemed necessary to be taken in order for the Bank to operate in a manner compliant with the relevant external and internal regulations and policies.

Remuneration Committee. As per the resolution of the Board of Directors, dated 27 December 2011, the Remuneration Committee was established for the purpose of executing functions and activities related to monitoring and controlling remuneration implementations of the Bank on behalf of Board of Directors. The Committee has two members of the Board of Directors; Mr. Uygar Şafak Öğün and Mr. Burhanettin Kantar.

The Remuneration Committee is responsible for establishing a written remuneration policy that is in compliance with the Bank's operations, strategic goals and risk management strategies, reviewing the remuneration policy at least once a year to ensure its efficiency and submitting a report to and advising the Board of Directors regarding evaluation of the Bank's policy with respect to risk management strategies.

Conflict of Interests

There are no actual or potential conflicts of interest between the duties of any of the members of the Board of Directors and the Executive Committee and their respective private interests or other duties.

Address

The business address of the Executive Committee members is Meclisi Mebusan Cad. No 81 Fındıklı 34427 İstanbul, Turkey.

Remuneration

Monthly remunerations of the Board members and auditors are determined annually at the Bank's General Shareholders' Meetings and disclosed to the Borsa İstanbul. After the legal reserves and the first dividend have been allocated from the net profit of the Bank, up to 0.5% of the remaining balance is distributed among the members of the Board of Directors (including the Chief Executive Officer) equally. Pursuant to the CMB's corporate governance principles, independent board members do not receive any dividend payment.

The corporate governance principle numbered 4.6.3 under the Communiqué No. II-17.1 on Corporate Governance (as amended, the "*Corporate Governance Communiqué*") prohibits companies from using payment plans based upon the company's performance for the remuneration of its independent board member and requires that such remuneration be at a level that would allow the independent board members to maintain their independence. Therefore, dividends calculated for the independent members of the Board of Directors are recommended to be transferred to the reserves.

The aggregate amount of the remuneration paid and benefits in hand granted to the members of the Board of Directors and senior management on a Bank-only basis for 2013 was TL 7,168 thousand (TL 6,235 thousand for the six months ended 30 June 2014).

Corporate Governance

The Bank recognises the importance of maintaining sound corporate governance practices. The relationship between the Bank's management, shareholders, employees and third parties including customers, legal authorities, suppliers and various other individuals and institutions with whom the Bank does business are based upon fundamental governance principles including integrity, credibility, non-discrimination, compliance, confidentiality, transparency, accountability and sustainability.

CMB Corporate Governance Principles

On 3 January 2014, the CMB issued the Corporate Governance Communiqué to replace the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 dated 30 December 2011. The Corporate Governance Communiqué provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the Borsa İstanbul, whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa İstanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul.

As of the date of this Prospectus, the Bank is subject to the corporate governance principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. In case of any non-compliance with any of the non-mandatory principles applicable to the Bank under the Corporate Governance Communiqué, the Bank is required to explain such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of its annual report.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders, (b) public disclosure and transparency, (c) the stakeholders of companies and (d) the board of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free-float shares, subject to recalculation on an annual basis. The Bank is classified as a "2nd Group" company.

The Capital Markets Law authorises the CMB to require listed companies to comply with the corporate governance principles in whole or in part and to take certain measures with a view to ensure compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict these principles.

OWNERSHIP

The Bank was established in 1950 as a development and investment bank with the mission to finance Turkey's private sector investments.

As of 30 September 2014: (a) the major shareholder of the Bank, with a 50% shareholding (40.52% direct with the rest held through subsidiaries, including 5.80% being held by Camiş Yatırım), was İşbank, (b) 8.38% of the Bank's shares were held by Vakıfbank, (c) 39.2% was traded publicly on the Borsa İstanbul (58% of which was owned by foreign investors) and (d) the remaining shares were owned by other institutional shareholders.

As of 30 September 2014, the share capital of the Bank was TL 1,500,000,000, consisting of 1,500,000,000 fully paid-up shares. Registered shareholdings in the Bank as of 30 September 2014 were as follows:

Shareholder[1]	Shares[2]	Percentage
İşbank	607,759,344.23	40.52%[3]
Vakıfbank	122,662,252.84	8.38%
Camiş Yatırım	86,947,332,78	5.80%
Public Free Float and Others	679,631,070.16	45.31%
Total	**150,000,000,000.00**	**100.00%**

(1) According to data from the Public Disclosure Platform (*Kamuyu Aydınlatma Platformu*) (KAP) as of 30 June 2014.
(2) Each share has a nominal value of one Kuruş. One hundred Kuruş are equal to one Turkish Lira.
(3) İşbank holds 50.00% of the Bank's shares, with 40.52% of the shares being held directly and the remainder being held by Camiş Yatırım (5.80%), Milli Reasürans (1.90%), Anadolu Sigorta (0.89%) and Anadolu Hayat Emeklilik (0.89%), the latter three of which are reflected in the table above in "Public Free Float and Others").

Dividends

Dividends are paid by the Bank from its net profit in accordance with its articles of incorporation. Under its articles of incorporation, the Bank is required to allocate 5% of its net profit towards its legal reserve fund. From the balance of net profit, a "first dividend" is distributed to the shareholders according to the Capital Markets Law. Once the first dividend is provided for, the balance of the net profit is distributed as follows: 5% for founder shares (limited to TL 200,000 of paid-up capital), up to 0.5% for the members of the Board of Directors (including the Chief Executive Officer) to be shared among them equally, up to 3% for the employees of the Bank; *provided* that such amount does not exceed the equivalent of three salaries. The General Assembly is authorised to decide whether the amount remaining from the net profit after the reserve funds and payments indicated above shall be completely or partially distributed as dividends or reserved as a reserve fund. The Bank's articles of incorporation require that 10% of the total amount to be distributed to shareholders out of profit is required to be added to the Bank's legal reserve fund.

The Bank distributed TL 45 million, TL 60 million and TL 65 million cash dividends with respect to 2011, 2012 and 2013, respectively.

Preferential rights

Under the Bank's articles of incorporation, existing shareholders have preferential rights with respect to the purchase of new shares to be issued by the Bank. The duration and conditions of the exercise of these rights is to be determined by the Board of Directors in accordance with the relevant Turkish regulations. To the extent that these preferential rights are not exercised in respect of any new shares within the prescribed period, these shares are to be made available for subscription by the public.

Voting rights

At least one share is needed for participating in any Ordinary or Extraordinary General Assembly. Each share provides one vote to its owner. Votes may be cast by proxy.

As of 14 February 2014, in accordance with the Turkish Commercial Law (No. 6102) and the Turkish Code of Obligations (Law No. 6098), each share exercises its voting right in proportion to its total nominal value. Accordingly, each share with a nominal value of 1 Kuruş has 1 share of voting right.

Major Shareholders

İşbank

İşbank was established under the laws of the Republic of Turkey in 1924 at the initiative of Mustafa Kemal Atatürk as the first national bank of Turkey to operate in all kinds of banking activities and to initiate and/or participate in all kinds of financial and industrial sector undertakings. As of 30 June 2014, İşbank was the largest bank in Turkey in terms of total loans, foreign currency-denominated loans and foreign currency-denominated deposits and had the largest market shares of total deposits, Turkish Lira-denominated deposits, demand deposits, number of debit cards and volume of debit cards transactions among private sector banks (sources: BRSA and Interbank Card Center), each as measured on a bank-only basis. İşbank holds 50.00% of the Bank's shares (both directly and through its subsidiaries, including Camiş Yatırım) and appoints six members to the Bank's Board of Directors.

Camiş Yatırım

Camiş Yatırım is a holding company and is a wholly-owned subsidiary of İşbank. As a result, the shares of the Bank held by Camiş Yatırım should also be considered as being indirectly owned and controlled by İşbank.

Vakıfbank

Founded in 1954, Vakıfbank is a full service commercial and retail bank, and as of 30 June 2014, was the seventh largest Turkish bank in terms of assets, deposits and branch network and seventh in terms of loans according to the BRSA. According to the BRSA, Vakıfbank's market share in total assets was 8.0% as of 30 June 2014 (Source: BRSA) and its lending market share was 8.4% as of the same date. Vakıfbank appoints one member to the Board of Directors.

Free Float and Other Shareholders

As of 30 June 2014, 39.2% of the total shares were on free float, 57.6% of which was owned by foreign investors. The remaining 2.4% shares are owned by other institutional shareholders.

RELATED PARTY TRANSACTIONS

The Bank and its qualified shareholders, Board of Directors (including the Chief Executive Officer) and the undertakings that they control individually or jointly, directly or indirectly, or in which they participate with unlimited responsibility or where they are members of board of directors or general manager are considered and referred to as related parties. The Bank enters into transactions with related parties in the ordinary course of its business and on an arm's length basis and will continue to do so in the future. See also "Business of the Group – Related Party Transactions."

Restrictions relating to loans extended by the Bank to the members of its Board of Directors are defined in Article 50 of the Banking Law. The Bank does not extend loans to the members of its Board of Directors other than those allowed by the law.

None of the members of the Bank's Board of Directors or executive officers has or has had any interest in any transaction effected by the Bank and that are or were unusual in their nature or conditions or significant to the business of the Bank and that were effected during the current or immediately preceding financial year or were effected during an earlier financial year and remain in any respect outstanding or unperformed. None of these individual transactions are material.

The Banking Law places limits on a bank's exposure to related parties. Under the Banking Law, the total amount of loans to be extended by a bank to its risk group must not be more than 20% of its own funds. As of 30 June 2014, the Bank's total net exposure to its risk group totaled TL 356 million, an amount corresponding to 16% of its own funds; the Bank is therefore within the limits of the Banking Law in terms of its exposure to its subsidiaries and other affiliates.

The following table shows the breakdown of the Group's business transactions with related parties as of the dates indicated.

	31 December							
	2011		2012		2013		30 June 2014	
	Amount	Percentage of Related Item	Amount	Percentage of Related Item	Amount	Percentage of Related Item	Amount	Percentage of Related Item
	(*TL thousands, except percentages*)							
Cash loans	184,614	2.9%	235,062	3.4%	290,027	3.2%	238,285	2.5%
Non-cash loans ...	117,903	9.3%	122,050	10.1%	117,675	8.3%	117,676	8.2%
Derivatives	37,260	0.7%	--	--	--	--	131,284	2.1%

TURKISH BANKING SYSTEM

The following information relating to the Turkish banking sector has been provided for background purposes only. The information has been extracted from third-party sources that the Bank's management believes to be reliable but the Bank has not independently verified such information.

Structural Changes in the Turkish Banking System

The Turkish financial sector has gone through major structural changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, liberalisation of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in the Turkish currency and foreign exchange markets experienced in 1994, 1998 and 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several institutions. The banking sector also experienced a sharp reduction in shareholders' equity in 2001, with the capital for 22 private sector banks declining to US$4,916 million at the end of 2001 from US$8,056 million for 28 banks at the end of 2000, according to the Turkish Banks Association.

The Turkish money markets and foreign exchange markets have stabilised since 2001, in large part due to regulatory reform and other governmental actions (including a three-part audit undertaken in 2001 and 2002, after which all private commercial banks were either found to be in compliance with the 8% minimum capital requirement, transferred to the SDIF or asked to increase their capital level). The transparency of the system has improved along with the establishment of an independent supervisory and regulatory framework and new disclosure requirements. Structural changes undertaken have strengthened the banking sector and resulted in a more level playing field among banks. Certain advantages for state banks were diminished while the efficiency of the system increased in general as a result of consolidation. According to the SDIF's official data, since 1994, a total of 25 private banks have been transferred to the SDIF due to, among other things, weakened financial stability and liquidity, and efforts are continuing on the resolution of the SDIF banks while restructuring and privatisation of the state banks is progressing.

In August 2004, in an attempt to reduce the regulatory costs inherent in the Turkish banking system, the government reduced the rate of the Resource Utilisation Support Fund ("*RUSF*") applicable on short-term foreign currency commercial loans lent by banks domiciled in Turkey to zero; *however*, the 3% RUSF charge for some types of loans provided by banks outside of Turkey with an average repayment term of less than one year remains valid. In addition, effective from 2 January 2013, RUSF rates for cross-border foreign exchange borrowings extended by financial institutions outside of Turkey with an average maturity of between one to two years changed from 0% to 1% and those with an average maturity of between two to three years changed from 0% to 0.5%, while those with an average maturity of three years or more remained at 0%. The government also increased the RUSF charged on interest of foreign currency-denominated retail loans from 10% to 15% in order to curb domestic demand fueled by credit, which was in turn perceived to be adversely affecting Turkey's current account balance. The Council of Ministers set the RUSF charged on consumer credits to be utilised by real persons (for non-commercial utilisation) to 15% with its decision numbered 2010/974, which was published in the Official Gazette dated 28 October 2010 and numbered 27743.

The Turkish Banking Sector

The Turkish banking industry has undergone significant consolidation over the past decade with the total number of banks (including deposit-taking banks, investment banks and development banks) declining from 81 in 1999 to 45 on 31 December 2008, which stayed at that level until February 2011 when Fortis Bank A.Ş. merged with Türk Ekonomi Bankası A.Ş. In October 2012, Odea Bank A.Ş. commenced operations and Standard Chartered Bank purchased Credit Agricole Yatırım Bankası Türk Anonim Şirketi. In December 2012, the Burgan Bank Group became Eurobank Tekfen Bank's majority shareholder with its acquisition of a 99.26% stake as a result of its purchase of shares previously belonging to Eurobank and Tekfen Holding. In January 2013, Eurobank Tekfen Bank began doing business under its new name, Burgan Bank A.Ş., following completion of formalities pertaining to the change of the bank's legal name. In addition, on 20 December 2012, the BRSA resolved to permit the establishment of a new deposit bank to be controlled by Bank of Tokyo-Mitsubishi UFJ Ltd, the operating license for which was given by the Banking Regulation and Supervision Board decision in September 2013. Portigon AG, which ceased its operations in Turkey on August 2013, entered into a liquidation process on 15 November 2013. Most recently, the BRSA announced its approval of the establishment of Rabobank A.Ş. on 1 August 2014 and its approval of its operating license on 4 September 2014. A number of banks were transferred to the SDIF and eventually removed from the banking system through mergers or liquidations. The table below shows the evolution of the number of banks in the Turkish banking system as of the end of each indicated year.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of banks	48	47	46	46	45	45	45	44	45	45

Source: Turkish Banks Association (www.tbb.org.tr)
Note: Total number of banks includes deposit-taking banks, investment banks and development banks, but excludes participation banks (Islamic banks).

As of 30 September 2014, 50 banks (including domestic and foreign banks but excluding the Central Bank) were operating in Turkey. Thirty-three of these were deposit-taking banks and the remaining banks (including the Bank) were development and investment banks (four participation banks, which conduct their business under different legislation in accordance with Islamic banking principles, are not included in this analysis). Among the deposit-taking banks, three banks were state-controlled banks, 11 were private domestic banks, 18 were private foreign banks and one was under the administration of the SDIF. The Banking Law permits deposit-taking banks to engage in all fields of financial activities, including deposit collection, corporate and consumer lending, foreign exchange transactions, capital market activities and securities trading. Typically, major commercial banks have nationwide branch networks and provide a full range of banking services, while smaller commercial banks (including the Bank) focus on wholesale banking. The main objectives of development and investment banks are to provide medium-and long-term funding for investment in different sectors.

Deposit-taking Turkish banks' total balance sheets have grown at a compound average growth rate ("*CAGR*") of 16.9% from 31 December 2006 to 30 June 2014, driven by loan book expansion and customer deposits growth, which increased by a CAGR of 25.8% and 17.2%, respectively, between 31 December 2006 and 30 June 2014, in each case according to the BRSA. Despite strong growth of net loans and customer deposits since 2006, the Turkish banking sector remains significantly under-penetrated compared with banking penetration in the eurozone. Loans/GDP and deposits/GDP ratios of the Turkish banking sector were 67.1% and 60.6%, respectively, as of 31 December 2013 according to BRSA data, whereas the eurozone's banking sector had loan and deposit penetration ratios of 122.4% and 114.3%, respectively, as of the same date based upon the European Central Bank's data.

The following table shows key indicators for the banking sector in Turkey as of (or for the period ended on) the indicated dates.

	As of (or for the year ended) 31 December								As of (or for the six months ended) 30 June
	2007	2008	2009	2010	2011	2012	2013	CAGR	2014
	(TL millions, except CAGR)								
Balance sheet									
Loans	262,572	338,091	355,285	479,018	621,379	716,307	939,772	24.2%	1,008,904
Total assets	543,272	683,823	773,357	932,371	1,119,911	1,247,653	1,566,190	18.7%	1,653,097
Deposits	342,031	435,554	487,909	583,947	656,276	724,296	884,457	16.6%	913,019
Shareholders' equity	64,533	72,060	93,833	114,979	123,007	157,553	165,954	18.6%	184,661
Income statement									
Net Interest Income	23,978	28,245	38,758	35,895	36,056	47,837	52,353	13.9%	27,544
Net Fees and Commission Income	7,894	9,611	10,846	11,459	13,345	14,704	17,444	14.1%	9,451
Total income	39,744	45,339	57,275	58,955	61,669	73,831	84,397	13.4%	43,513
Net Profit	13,468	11,851	18,490	20,518	18,177	21,539	22,473	8.9%	11,041
Key ratios									
Loans/deposits	76.8%	77.6%	72.8%	82.0%	94.7%	98.9%	106.3%		110.5%
Net interest margin	4.8%	4.6%	5.4%	4.3%	3.4%	4.1%	3.7%		1.7%
Return on average equity	26.6%	19.9%	25.2%	22.2%	16.8%	16.8%	15.1%		6.5%
Capital adequacy ratio	17.4%	16.6%	19.3%	17.7%	15.5%	17.3%	14.6%		15.7%

Source: BRSA monthly bulletin (www.bddk.org.tr)

Competition

The Turkish banking industry is highly competitive and relatively concentrated with the top 10 deposit-taking banks accounting for 84% of total assets of deposit-taking banks as of 30 June 2014 according to the BRSA. Among the top 10 Turkish banks, there are three state-controlled banks – Ziraat Bank, HalkBank and Vakıfbank, which were ranked first, sixth and seventh, respectively, in terms of total assets as of 30 June 2014 according to the bank-only financials published in the Public Disclosure Platform (www.kap.gov.tr).These three state-controlled banks accounted for 31.2% of deposit-taking Turkish banks' performing loans and 33.7% of customer deposits as of 30 June 2014. The top four privately-owned domestic banks are İşbank, Türkiye Garanti Bankası A.Ş. ("*Garanti*"), Akbank A.Ş. ("*Akbank*") and Yapı ve Kredi Bankası A.Ş., which in total accounted for approximately 47.0% of deposit-taking Turkish banks' performing loans and approximately 43.5% of customer deposits as of 30 June 2014 according to the BRSA. The remaining banks in the top 10 deposit-taking banks in Turkey include three mid-sized banks, namely Finansbank A.Ş., Türk Ekonomi Bankası and Denizbank A.Ş., which were controlled by National Bank of Greece, TEB Holding and Sberbank, respectively, as of 30 June 2014.

The Bank's management perceives: (a) leading commercial banks, such as Akbank and Garanti, which lend foreign exchange loans, (b) the state-owned banks, such as Halkbank and Vakıfbank, which are capable of borrowing from supranational institutions with the guarantee from the Turkish Treasury, and (c) other development banks, such as Türkiye İhracat ve Kredi Bankası A.Ş. and Türkiye Kalkınma Bankası A.Ş. (Development Bank of Turkey), as its primary competitors.

As of 30 June 2014, the Bank ranked 21st among Turkish banks in terms of assets according to figures published by the BRSA. As of 30 June 2014, the market share of the Bank in long-term foreign exchange denominated commercial loans was 3.5% in the banking sector. As the Bank has an important presence in energy loans, the market share of the Bank in such sector was approximately 9.0% as of the same date.

TURKISH REGULATORY ENVIRONMENT

Regulatory Institutions

Turkish banks (including development and investment banks such as the Bank) and branches of foreign banks in Turkey are primarily governed by two regulatory authorities in Turkey, the BRSA and the Central Bank.

The Role of the BRSA

In June 1999, the Banks Act No. 4389 (which has been replaced by the Banking Law) established the BRSA, which is responsible for ensuring that banks observe banking legislation, supervising the application of banking legislation and monitoring the banking system. The BRSA has administrative and financial autonomy.

Articles 82 and 93 of the Banking Law state that the BRSA, having the status of a public legal entity with administrative and financial autonomy, is established in order to ensure application of the Banking Law and other relevant acts, to ensure that savings are protected and to carry out other activities as necessary by issuing regulations within the limits of the authority granted to it by the Banking Law. The BRSA is obliged and authorised to take and implement any decisions and measures in order to prevent any transaction or action that could jeopardise the rights of depositors and the regular and secure operation of banks and/or could lead to substantial damages to the national economy, as well as to ensure efficient functioning of the credit system.

The BRSA has responsibility for all banks operating in Turkey, including development and investment banks (including the Bank), foreign banks and participation banks. The BRSA sets various mandatory ratios such as reserve levels, capital adequacy and liquidity ratios. In addition, all banks must provide the BRSA, on a regular and timely basis, information adequate to permit off-site analysis by the BRSA of such bank's financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis, depending upon the nature of the information to be reported.

The BRSA conducts both on-site and off-site audits and supervises implementation of the provisions of the Banking Law and other legislation, examination of all banking operations and analysis of the relationship and balance between assets, receivables, equity capital, liabilities, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to the Regulation regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks, as issued by the BRSA and published in the Official Gazette dated 11 July 2014 and numbered 29057, banks are obligated to establish, manage and develop (for themselves and all affiliates that they consolidate) internal audit, internal control and risk management systems commensurate with the scope and structure of their organisations, in compliance with the provisions of such regulation. Pursuant to such regulation, the internal audit and risk management systems are required to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department must report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

The Role of the Central Bank

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, implementation of the government's fiscal and monetary policies, maintenance of price stability and continuity, regulation of the money supply, management of official gold and foreign exchange reserves, monitoring of the financial system and advising the government on financial matters. The Central Bank exercises its powers independently of the government. The Central Bank is empowered to determine the inflation target together with the government, and to adopt a monetary policy in compliance with such target. The Central Bank is the only authorised and responsible institution for the implementation of such monetary policy.

The Central Bank has responsibility for all banks operating in Turkey, including development and investment banks (including the Bank) and foreign banks. The Central Bank sets mandatory reserve levels. In addition, each bank must provide the Central Bank, on a current basis, information adequate to permit off-site evaluation of its financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis depending upon the nature of the information to be reported.

Turkish Banks Association

The Turkish Banks Association is an organisation that provides limited supervision of and coordination among banks (excluding the participation banks) operating in Turkey. All banks (excluding the participation banks) in Turkey are obligated to become members of this association. As the representative body of the banking sector, the association aims to examine, protect and promote its members' professional interests; *however*, despite its supervisory and disciplinary functions, it does not possess any powers to regulate banking.

Shareholdings

The direct or indirect acquisition by a person of shares that represent 10% or more of the share capital of any bank or the direct or indirect acquisition or disposition of such shares by a person if the total number of shares held by such person increases above or falls below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the Banking Regulation and Supervision Board (the "*BRSB*") in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee (or the issuance of new shares with such privileges) is also subject to the authorisation of the BRSB. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares but not of the right to collect dividends declared on such shares. Additionally, the transfer of an amount of shares exceeding the above thresholds of legal persons who, directly or indirectly, own 10% or more of the capital of a bank are (under the terms and conditions mentioned above) subject to the permission of the BRSB. The BRSB's permission might be given on the condition that the person who acquires the shares possesses the qualifications required for a founder of a bank. In a case in which such shares of a bank (including a development and investment bank such as the Bank) are transferred without the permission of the BRSB, the shareholder rights of the legal person stemming from these shares, other than dividends, shall be exercised by the SDIF.

The board of directors of a bank is responsible for taking necessary measures to ascertain that shareholders attending general assemblies have obtained the applicable authorisations from the BRSB. If the BRSA determines that a shareholder has exercised voting or other shareholders' rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to start the procedure to cancel such applicable general assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law if such procedure has not been started yet). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without authorisation by the BRSB. In the case that the procedure to cancel such general assembly resolutions is not yet started, or such transfer of shares is not deemed appropriate by the BRSA even though the procedure to cancel such general assembly resolutions is started, then, upon the notification of the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

Loan Loss Reserves

Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and other receivables and to reserve an adequate level of provisions against impairment in the value of other assets, for qualification and classification of assets, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans, follow-up procedures and the repayment of overdue loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with this article are considered as expenditures deductible from the corporate tax base in the year they are set aside.

Procedures relating to loan loss reserves for non-performing loans are set out in Article 53 of the Banking Law and in regulations issued by the BRSA. Pursuant to the Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be Set Aside published in the Official Gazette No. 26333 on 1 November 2006 and amended from time to time thereafter (the "*Regulation on Provisions and Classification of Loans and Receivables*"), banks are required to classify their loans and receivables into one of the following groups:

(a) *Group I: Loans of a Standard Nature and Other Receivables*: This group involves loans and other receivables:

(i) that have been disbursed to natural persons and legal entities with financial creditworthiness,

(ii) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor,

(iii) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and that can be fully collected, and

(iv) for which no weakening of the creditworthiness of the applicable debtor has been found.

The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, general loan provisions of not less than five times the sum of 1% of the cash loan portfolio (except for: (a) export loans, for which the general loan loss reserve is calculated at 0%, and (b) SME loans, for which the general loan loss reserve is calculated at five times 0.5%) are required to be set aside, and such modifications are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 2.5 times the Consumer Loans Provisions (as defined below) for amended consumer loan agreements (other than housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short-term loan and the interest payments thereof are made in a timely manner; *provided* that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(b) *Group II: Loans and Other Receivables Under Close Monitoring*: This group involves loans and other receivables:

(i) that have been disbursed to natural persons and legal entities with financial creditworthiness and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilizing the loan,

(ii) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk,

(iii) that are very likely to be repaid but the principal and interest due dates are delayed for more than 30 days for justifiable reasons but not falling within the scope of "Loans and other Receivables with Limited Recovery" set forth under Group III below, or

(iv) although the standing of the debtor has not weakened, there is a high likelihood of weakening due to the debtor's irregular and unmanageable cash flow.

If a loan customer has multiple loans and one or more of these loans is classified in Group II and others are classified in Group I, then all of such customer's loans are required to be classified in Group II. The terms of a bank's loans and receivables monitored in this group may be modified if such loans and receivables continue to have the conditions envisaged for this group; *however*, in the event that such modification is related to the extension of the initial payment plan under the loan or receivable, general loan provisions of not less than 2.5 times the sum of 2% of the cash loan portfolio are required to be disclosed under the financial reports to be disclosed to the public. This ratio is required to be at least 1.25 times the Consumer Loans Provisions for amended consumer loan agreements (other than housing loans). The modified loan or receivable may not be subject to this additional general loan provision if such loan or receivable has low risk, is extended with a short term and the interest payments thereof are made in a timely manner; *provided* that the principal amount of such loan or receivable must be repaid within a year, at the latest, if the term of the loan or receivable is renewed without causing any additional cost to a bank.

(c) *Group III: Loans and Other Receivables with Limited Recovery*: This group involves loans and other receivables:

(i) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and in case the problems observed are not eliminated, they are likely to cause loss,

(ii) the credibility of whose debtor has weakened and where the loan is deemed to have weakened,

(iii) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date, or

(iv) in connection with which the bank is of the opinion that collection by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

(d) *Group IV: Loans and Other Receivables with Suspicious Recovery*: This group involves loans and other receivables:

(i) that seem unlikely to be repaid or liquidated under existing conditions,

(ii) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement,

(iii) whose debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase, or

(iv) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.

(e) *Group V: Loans and Other Receivables Considered as Losses*: This group involves loans and other receivables:

(i) that are deemed to be uncollectible,

(ii) collection of whose principal or interest or both has been delayed by one year or more from the due date, or

(iii) for which, although sharing the characteristics stated in Groups III and IV, the bank is of the opinion that they have become weakened and that the debtor has lost creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks are required to reserve adequate provisions for loans and other receivables until the end of the month in which the payment of such loans and receivables has been delayed. This regulation also requires Turkish banks to provide a general reserve calculated at 1% of the total cash loan portfolio *plus* 0.2% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) (except for: (a) cash and non-cash export loans, for which the general loan loss reserve is calculated at 0%, and (b) cash and non-cash SME loans, for which the general loan loss reserve is calculated at 0.5% and 0.1%, respectively) for standard loans defined in Group I above; and a general reserve calculated at 2% of the total cash loan portfolio *plus* 0.4% of the total non-cash loan portfolio (*i.e.*, letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II above.

For each check slip that was delivered by a bank at least five years previously, 25% of these (non-cash) rates will be applied. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, at least 40% of the general reserve amount calculated according to the above-mentioned ratios had to be reserved by 31 December 2012, at least 60% had to be reserved by 31 December 2013, at least 80% shall be reserved by 31 December 2014 and 100% shall be reserved by 31 December 2015.

Banks with consumer loan ratios greater than 25% of their total loans and banks with non-performing consumer loan (classified as frozen receivables (excluding housing loans)) ratios greater than 8% of their total consumer loans (excluding housing loans) (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) are required to set aside a 4% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group I, and an 8% general provision for outstanding (but not yet due) consumer loans (excluding housing loans) under Group II (the "*Consumer Loans Provisions*").

If the sum of the letters of guarantee, acceptance credits, letters of credit undertakings, endorsements, purchase guarantees in security issuances, factoring guarantees or other guarantees and sureties and pre-financing loans without letters of guarantee of a bank is higher than ten times its equity calculated pursuant to banking regulations, a 0.3% general provision ratio is required to be applied by such bank for all of its standard non-cash loans. Notwithstanding the above ratio and by taking into consideration the standard capital adequacy ratio, the BRSA may apply the same ratio or a higher ratio as the general reserve requirement ratio.

Turkish banks are also required to set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the "Regulation on Loan Transactions of Banks" (published in the Official Gazette No. 26333 on 1 November 2006) by applying the general provision rate applicable for cash loans. In addition to the general provisions, special provisions must be set aside for the loans and receivables in Groups III, IV and V at least in the amounts of 20%, 50% and 100%, respectively. An amount equal to 25% special provisions is set aside for each check slip of customers who have loans under Groups III, IV and V, which checks were delivered by the Bank at least five years previously; *however*, if a bank sets aside specific provisions at a rate of 100% for non-performing loans, then it does not need to set aside specific provisions for check slips that were delivered by such bank at least two years previously; *provided* that a registered letter has been sent to the relevant customer requiring it to return the check slips to the bank in no later than 15 days.

Pursuant to these regulations, all loans and receivables in Groups III, IV and V above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the loans or receivables have been refinanced, are defined as "frozen receivables." If several loans have been extended to a loan customer by the same bank and if any of these loans is considered as a frozen receivable, then all outstanding risks of such loan customer are classified in the same group as the frozen receivable even if such loans would not otherwise fall under the same group as such frozen receivable. If a frozen receivable is repaid in full, then the other loans of the loan customer may be re-classified into the applicable group as if there were no related frozen receivable.

Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, the BRSA is entitled to increase these provision rates taking into account the sector and country risk status of the borrower.

Banks must also monitor the following types of security based upon their classification:

Category I Collateral: (a) cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements, promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Housing Development Administration of Turkey or the Privatisation Administration and funds gained from repo transactions over similar securities and B-type investment profit sharing funds, member firm receivables arising out of credit cards and gold reserved within the applicable bank, (b) transactions executed with the Treasury, the Central Bank, the Housing Development Administration of Turkey or the Privatisation Administration and transactions made against promissory notes, debenture bonds, lease certificates and similar securities issued directly or guaranteed by such institutions, (c) securities issued directly or guaranteed by the central governments or central banks of countries that are members of the Organisation for Economic Co-operation and Development (the "*OECD*"), (d) guarantees and sureties given by banks operating in OECD member states, (e) securities issued directly or guaranteed by the European Central Bank, (f) sureties, letters of guarantee, avals and acceptance and endorsement of non-cash loans issued by banks operating in Turkey in compliance with their maximum lending limits and (g) bonds, debentures and covered bonds issued, or lease certificates the underlying assets of which are originated, by banks operating in Turkey.

Category II Collateral: (a) precious metals other than gold, (b) shares quoted on a stock exchange and A-type investment profit sharing funds, (c) asset-backed securities and private sector bonds except ones issued by the borrower, (d) credit derivatives providing protection against credit risk, (e) the assignment or pledge of accrued entitlements of real and legal persons from public agencies, (f) liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value, (g) mortgages on real property registered with the land registry and mortgages on real property built on allocated real estate, provided that their appraised value is sufficient, (h) export documents based upon marine bill of lading or transport bills, or insured within the scope of an exportation loan insurance policy, and (i) bills of exchange stemming from actual trading relations, which are received from natural persons and legal entities.

Category III Collateral: (a) commercial enterprise pledges, (b) other export documents, (c) vehicle pledges, (d) mortgages on aircraft or ships, (e) sureties from real or legal persons whose creditworthiness is higher than the debtor itself and (f) other promissory notes of real and legal persons.

Category IV Collateral: any other security not otherwise included in Category I, II or III.

Assets owned by banks and leased to third parties under financial lease agreements must also be classified in accordance with the above-mentioned categories.

When calculating the special reserve requirements for frozen receivables, the value of collateral received from an applicable borrower is deducted from such borrower's loans and receivables in Groups III, IV and V above in the following proportions in order to determine the amount of the required reserves:

Category	**Discount Rate**
Category I collateral	100%
Category II collateral	75%
Category III collateral	50%
Category IV collateral	25%

In case the value of the collateral exceeds the amount of the NPL, the above-mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the NPL.

According to Article 11 of the Regulation on Provisions and Classification of Loans and Receivables, in the event of a borrower's failure to repay loans or any other receivables due to a temporary lack of liquidity that the borrower is facing, a bank is allowed to refinance the borrower with additional funding in order to strengthen the borrower's liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether Group III, IV or V) for at least the next six-month period and, within such period, provisions continue to be set aside at the special provision rates applicable to the group in which they are included. After the lapse of such six-month period, if total collections reach at least 15% of the total receivables for restructured loans, then the remaining receivables are reclassified to the "Renewed/Restructured Loans Account." The bank may refinance the borrower for a second time if the borrower fails to repay the refinanced loan; *provided* that at least 20% of the principal and other receivables are collected on a yearly basis.

In addition to the general provisioning rules, the BRSA has from time to time enacted provisional rules relating to exposures to debtors in certain industries or countries (such as current rules that are in place for the maritime industry and for real persons or legal entities residing in or engaged in activities relating to Libya and Syria).

Capital Adequacy

Article 45 of the Banking Law defines "Capital Adequacy" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, perpetuate and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8%.

The BRSA is authorised to increase the minimum capital adequacy ratio and the minimum consolidated capital adequacy ratio, to set different ratios for each bank and to revise the calculation and notification periods, but must consider each bank's internal systems as well as its asset and financial structures. Both the minimum total capital adequacy ratio and the minimum consolidated capital adequacy ratio for the Group as required by the BRSA is currently 8%. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio of 8%.

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee on Banking Supervision (the "*Basel Committee*") in December 2010 and revised in June 2011 (*i.e.*, Basel III) into Turkish law, the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks were published in the Official

Gazette dated 5 September 2013 and numbered 28756 and entered into force on 1 January 2014. The 2013 Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e.*, Tier I capital), which is composed of core capital and additional principal capital (*i.e.*, additional Tier I capital) and (b) supplementary capital (*i.e.*, Tier II capital) *minus* capital deductions. Pursuant to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks (as so amended): (i) both the minimum core capital adequacy ratio and the minimum consolidated core capital adequacy ratio are 4.5% and (ii) both the minimum Tier I capital adequacy ratio and the minimum consolidated Tier I capital ratio are 6.0%.

In addition, the Regulation on the Capital Conservation and Cyclical Capital Buffer and the Regulation on the Measurement and Evaluation of Leverage Levels of Banks were published in the Official Gazette dated 5 November 2013 and numbered 28812, which regulations entered into force on 1 January 2014 (with the exception of certain provisions of the latter regulation that will enter into effect on 1 January 2015). The Regulation on the Capital Conservation and Cyclical Capital Buffer provides additional core capital requirements both on a consolidated and bank-only basis. Pursuant to this regulation, the additional core capital requirements are to be calculated by the multiplication of the amount of risk-weighted assets by the sum of a capital conservation buffer ratio and bank-specific countercyclical buffer ratio. The Regulation on the Measurement and Evaluation of the Leverage Level of Banks seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and bank-only basis against leverage risks. Lastly, the Regulation on Liquidity Coverage Ratios, published in the Official Gazette dated 21 March 2014 and numbered 28948, seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. The Regulation on Liquidity Coverage Ratios provides that the ratio of the high quality asset stock to the net cash outflows, both of which are calculated in line with the regulation, cannot be lower than 100% in respect of total consolidated and non-consolidated liquidity and 80% in respect of total consolidated and non-consolidated foreign exchange liquidity. Unconsolidated total and foreign currency liquidity coverage ratios cannot be non-compliant more than six times within a calendar year. This includes non-compliance that has already been remedied. With respect to consolidated total and foreign currency liquidity coverage, these cannot be non-compliant consecutively within a calendar year and such ratios cannot be non-compliant for more than two times within a calendar year, including non-compliance that has already been remedied. The Regulation on Liquidity Coverage Ratios entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which will enter into effect on 1 January 2015). It should be noted that according to the BRSA's reply letter to the Turkish Banking Association dated 25 August 2014 and numbered 20443, the BRSA is reviewing the transition period provided under such regulation for liquidity coverage ratio limits.

Under the 2013 Equity Regulation, debt instruments and their issuance premia can be included either in additional Tier I capital or in Tier II capital subject to certain conditions; *however*, such amount is required to be reduced by the amount of any cash credit extended to creditors holding 10% or more of such debt instruments of a bank (or to any person within such creditors' risk group).

In accordance with Basel III rules, each bank is required to prepare an internal capital adequacy assessment process report ("*ICAAP Report*") representing its own assessment of its capital requirements. The first ICAAP Report covering the activities of the Bank in 2013 was submitted to the BRSA in September 2014. Subsequent filings of the ICAAP Report are required to be made at the end of March in each year.

See also a discussion of the implementation of Basel III in "-Basel Committee - Basel III" below.

Tier II Rules under Turkish Law

Previous Tier II Rules. Secondary subordinated debts were, through 31 December 2013, regulated under the 2006 Equity Regulation. This section thus describes the rules previously applicable to the Bank's secondary subordinated debts that were issued before 1 January 2014, which rules continue to apply to such subordinated debts notwithstanding the 2013 Equity Regulation.

According to the 2006 Equity Regulation, the net worth of a bank (*i.e.*, the bank's own funds) consists of main capital and supplementary capital *minus* capital deductions. In the relevant definition, "secondary subordinated loans" (which as defined can also include bonds) are listed as one of the items that constitute a bank's supplementary capital (*i.e.*, "Tier II" capital); *however*, loans provided to the banks by their affiliates or debt instruments issued to their affiliates do not fall within the scope of such "secondary subordinated loans." Unless temporarily permitted by the BRSA in exceptional cases, the portion of primary subordinated debts that is not included in the calculation of "Tier I" capital *plus* the total secondary subordinated debts that, in aggregate, exceeds 50% of "Tier I" capital is not taken into consideration in the calculation of "Tier II" capital. During the final five years of a secondary subordinated debt, the amount thereof to be taken into account in the calculation of the "Tier II" capital would be reduced by 20% per year. In addition, any secondary subordinated debt with a remaining maturity of less than one year is not included in the calculation of "Tier II" capital. Any cash credits extended by the bank to the provider(s) of the "secondary subordinated loans" (if debt instruments, to the investor(s) holding 10% or more thereof) and any debt instruments issued by such provider(s) (or investor(s)) and purchased by the bank are also deducted from the amount to be used in the calculation of the Tier II capital. A secondary subordinated debt is taken into account in the calculation of "Tier II" capital on the date of the accounting of such secondary subordinated debt on the books of the relevant bank.

The 2006 Equity Regulation requires banks to obtain the prior permission of the BRSA for a debt to be classified as a "secondary subordinated loan." In order to obtain such permission, the bank must submit to the BRSA the original copy or a notarised copy of the applicable agreement(s), and if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarised copy to the BRSA within five business days of the signing of such agreement). The BRSA would, in considering any such request for its permission, determine if the credit in question meets the following criteria:

(a) the debt must have an initial maturity of at least five years and the agreement must contain express provisions that prepayment of the principal cannot be made before the expiry of the five-year period and the creditors waive their rights to make any set-offs against the bank with respect to such debt; *it being understood* that interest and other charges may be payable during such five year period,

(b) there may be no more than one repayment option before the maturity of the debt and, if there is a repayment option before maturity, the date of exercising the option must be clearly defined,

(c) the creditors must have agreed expressly in the agreement that in the event of dissolution and liquidation of the bank, such debt will be repaid before any payment to shareholders for their capital return and payments on primary subordinated debts but after all other debts,

(d) it must be stated in the agreement that the debt is not related to any derivative operation or contract violating the condition stated in clause (c) or tied to any guarantee or security, in one way or another, directly or indirectly, and the debts cannot be assigned to any affiliates of the bank,

(e) it must be utilised as one single drawdown if utilised in the form of a loan and it must be wholly collected in cash if in the form of a debt instrument, and

(f) payment before maturity is subject to approval of the BRSA.

If the interest rate applied to a secondary subordinated debt is not explicitly indicated in the loan agreement or the text of the debt instrument or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorise the inclusion of the loan or debt instrument in the calculation of "Tier II" capital.

In cases where the parties subsequently agree that a secondary subordinated debt be prepaid prior to its stated maturity (but in any event after the fifth anniversary of its utilisation), they would be required to apply for the BRSA's permission. Upon any such application, the BRSA would, in its sole discretion, determine if any such prepayment would adversely affect the bank's credit lines and limits or its compliance with the applicable standard ratios and give or decline to give its consent accordingly.

In connection with secondary subordinated debts pursuant to which it has been agreed that a prepayment option shall be available and the remaining maturity is calculated by way of taking into account the originally agreed maturity date (*i.e.*, not on the basis of the prepayment option date), such prepayment option can only be exercised with the consent of the BRSA, which would apply the criteria stated above.

Subordinated debt instruments that do not meet the New Tier II Conditions described below as of 1 January 2014 are not required to meet such conditions or otherwise become subject to such conditions (*e.g.*, they are not subject to the new loss absorbency rules); *however*, the issuing bank will be permitted to take them into account for equity calculation only after reducing their nominal amount over the total amount of the Tier II instruments by 10% each year effective from 1 January 2015. Additionally, debt instruments that provide for an increase in interest rate after 1 January 2015 shall not be taken into account in equity calculations as of the date of increase.

New Tier II Rules. According to the 2013 Equity Regulation, which came into force on 1 January 2014, Tier II capital shall be calculated by subtracting capital deductions from general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate the credit risk amounts of the applicable receivables) and issuance premia and the debt instruments that have been approved by the BRSA upon the application of board of directors of the applicable bank along with a written statement confirming compliance of the debt instruments with conditions set forth below (the "*New Tier II Conditions*"):

(a) the debt instrument shall have been issued by the bank and registered with the CMB and shall have been fully collected in cash,

(b) in the event of dissolution of the bank, the debt instrument shall have priority over debt instruments that are included in additional Tier I capital and shall be subordinated with respect to rights of deposit holders and all other creditors,

(c) the debt instrument shall not be related to any derivative operation or contract violating the condition stated in clause (b) nor shall it be tied to any guarantee or security, in one way or another, directly or indirectly,

(d) the debt instrument must have an initial maturity of at least five years and shall not include any provision that may incentivise prepayment, such as dividends and increase of interest rate,

(e) if the debt instrument includes a prepayment option, such option shall be exercisable no earlier than five years after issuance and only with the approval of the BRSA; approval of the BRSA is subject to the following conditions.

(i) the bank should not create any market expectation that the option will be exercised by the bank,

(ii) the debt instrument shall be replaced by another debt instrument either of the same quality or higher quality, and such replacement shall not have a restrictive effect on the bank's ability to sustain its operations, or

(iii) following the exercise of the option, the equity of the bank shall exceed the higher of: (A) the capital adequacy requirement that is to be calculated pursuant to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks along with the procedures and principles on capital buffers that are to be set by the BRSA, (B) the capital requirement derived as a result of an internal capital adequacy assessment process of the bank and (C) the higher capital requirement set by the BRSA (if any);

however, if tax legislation or other regulations are materially amended, a prepayment option may be exercised; *provided* that the above conditions in this clause (e) are met and the BRSA approves,

(f) the debt instrument shall not provide investors with the right to demand early amortisation except for during a bankruptcy or dissolution process relating to the issuer,

(g) the debt instrument's dividend or interest payments shall not be linked to the creditworthiness of the issuer,

(h) the debt instrument shall not be: (i) purchased by the issuer or by corporations controlled by the issuer or significantly under the influence of the issuer or (ii) assigned to such entities, and its purchase shall not be directly or indirectly financed by the issuer itself,

(i) if there is a possibility that the bank's operating license would be cancelled or the probability of transfer of management of the bank to the SDIF arises pursuant to Article 71 of the Banking Law, removal of the debt instrument from the bank's records or the debt instrument's conversion to share certificates would be possible if the BRSA so decides, and

(j) in the event that the debt instrument has not been issued by the bank itself or one of its consolidated entities, the amounts obtained from the issuance shall be immediately transferred without any restriction to the bank or its consolidated entity (as the case may be) in accordance with the rules listed above.

Loans (as opposed to securities) that have been approved by the BRSA upon the application of the board of directors of the applicable bank accompanied by a written statement confirming that all of the New Tier II Conditions (except the issuance and registration with the CMB) are met also can be included in Tier II capital calculations.

In addition to the conditions that need to be met before including debt instruments and loans in the calculation of Tier II capital, the 2013 Equity Regulation also provides that general provisions that are set aside for receivables and/or the surplus of provisions and capital deductions with respect to expected loss amounts for receivables (as the case may be, depending upon the method used by the bank to calculate credit risk amounts of the applicable receivables) can be included in Tier II capital subject to an amended limit for general provisions and a new limit for surplus of provisions and capital deductions. In the 2006 Equity Regulation, the portion of the general provisions that exceeded 125 parts per 10,000 of the total risk-weighted assets (*i.e.*, risk-weighted assets related to credit risk, market risk and operational risk) had not been taken into consideration in calculating the Tier II capital. In the 2013 Equity Regulation, the portion of general provisions that exceeds 125 parts per 10,000 of the risk-weighted sum of the receivables that are subject to a standardised approach in accordance with the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks and/or the portion of the surplus of provisions and capital deductions that exceeds 6 parts per 1,000 of the receivables to which they relate shall not be included in Tier II capital.

Furthermore, in addition to the New Tier II Conditions stated above, the BRSA may require new conditions for each debt instrument.

Applications to include debt instruments or loans into Tier II capital are required to be accompanied with the original copy or a notarised copy of the applicable agreement(s) or, if an applicable agreement is not yet signed, a draft of such agreement (with submission of its original or a notarised copy to the BRSA within five business days of the signing of such agreement). If the interest rate is not explicitly indicated in the loan agreement or the prospectus of the debt instrument (*borçlanma aracı izahnamesi*), or if the interest rate is excessively high compared to that of similar loans or debt instruments, then the BRSA might not authorise the inclusion of the loan or debt instrument in the calculation of Tier II capital.

Debt instruments and loans that are approved by the BRSA are included in accounts of Tier II capital as of the date of transfer to the relevant accounts in the applicable bank's records. Loan agreements and debt instruments that have been included in Tier II capital calculations, and that have less than five years to maturity, shall be included in Tier II capital calculations after being reduced by 20% each year.

Basel Committee

Basel II. The most significant difference between the capital adequacy regulations in place before 1 July 2012 and the Basel II regulations is the calculation of risk-weighted assets related to credit risk. The current regulations seek to align more closely the minimum capital requirement of a bank with its borrowers' credit risk profile. The impact of the new regulations on capital adequacy levels of Turkish banks largely stems from exposures to the Turkish government, principally through the holding of Turkish government bonds. While the previous rules provided a 0% risk weight for exposures to the Turkish sovereign and the Central Bank, the rules of Basel II require that claims on sovereign entities and their central banks be risk-weighted according to their credit assessment, which currently results in a 50% risk weighting for Turkey; *however*, the Turkish rules implementing the Basel principles in Turkey (*i.e.*, the "Turkish National Discretion") revises this general rule by providing that all Turkish Lira-denominated claims on sovereign entities in Turkey and all foreign currency-denominated claims on the Central Bank will have a 0% risk weight. As a result of these implementation rules, the impact of the new regulations has been fairly limited when compared to the previous regime. The BRSA has announced that the migration from the previous regime to Basel II regulations has had an effect of an approximately 0.20% decline in the capital adequacy levels of the Turkish banking system as of 31 July 2012.

Basel III. In the future, Turkish banks' capital adequacy requirements may be further affected by Basel III, which includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements, which are expected to be implemented between 2014 and 2019. In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the 2013 Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. The 2013 Equity

Regulation introduced core Tier I capital and additional Tier I capital as components of Tier I capital, whereas the amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks: (a) introduced a minimum core capital adequacy standard ratio (4.5%) and a minimum Tier I capital adequacy standard ratio (6.0%) to be calculated on a consolidated and non-consolidated basis (which are in addition to the previously existing requirement for a minimum total capital adequacy ratio of 8.0%) and (b) changed the risk weights of certain items that are categorised under "other assets." The 2013 Equity Regulation also introduced new Tier II rules and determined new criteria for debt instruments to be included in the Tier II capital.

In addition to these implementations: (a) the Regulation on the Capital Conservation and Cyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, and (b) the Regulation on the Measurement and Evaluation of Leverage Levels of Banks, through which regulation the BRSA seeks to constrain leverage in the banking system and ensure maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), were published in the Official Gazette dated 5 November 2013 and numbered 28812 and entered into effect on 1 January 2014 with the exception of certain provisions of the Regulation on the Measurement and Evaluation of Leverage Levels of Banks that will enter into effect on 1 January 2015. Lastly, the Regulation on the Calculation of Banks' Liquidity Coverage Ratios, through which the BRSA seeks to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period both on a consolidated and unconsolidated basis, was published in the Official Gazette, dated 21 March 2014 and numbered 28948, and entered into effect immediately with the provisions thereof becoming applicable as of 1 January 2014 (with the exception of certain provisions relating to minimum coverage ratio levels and the consequences of failing to maintain compliance, which will enter into effect on 1 January 2015). If the Bank and/or the Group is unable to maintain its capital adequacy or leverage ratios above the minimum levels required by the BRSA or other regulators (whether due to the inability to obtain additional capital on acceptable economic terms, if at all, sell assets (including subsidiaries) at commercially reasonable prices, or at all, or for any other reason), then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Liquidity and Reserve Requirements

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures set out by the BRSA. Within this framework, a comprehensive liquidity arrangement has been put into force by the BRSA, following the consent of the Central Bank.

As of the date of this Prospectus, the reserve requirements regarding foreign currency liabilities vary by category, as set forth below:

Category of Foreign Currency Liabilities	**Required Reserve Ratio**
Demand deposits, notice deposits, private current accounts, deposit/participation accounts up to 1-month, 3-month, 6-month and 1-year maturities	13%
Deposit/participation accounts with maturities of 1-year and longer	9%
Other liabilities up to 1-year maturity (including 1-year)	13%
Other liabilities up to 3-year maturity (including 3-year)	11%
Other liabilities longer than 3-year maturity	6%

As of the date of this Prospectus, the reserve requirements regarding Turkish Lira liabilities vary by category, as set forth below:

Category of Turkish Lira Liabilities	**Required Reserve Ratio**
Demand deposits, notice deposits and private current accounts	11.5%
Deposits/participation accounts up to 1-month maturity (including 1-month)	11.5%
Deposits/participation accounts up to 3-month maturity (including 3-month)	11.5%
Deposits/participation accounts up to 6-month maturity (including 6-month)	8.5%
Deposits/participation accounts up to 1-year maturity	6.5%
Deposits/participation accounts with maturities of 1-year and longer	5%
Other liabilities up to 1-year maturity (including 1-year)	11.5%
Other liabilities up to 3-years maturity (including 3-years)	8%
Other liabilities longer than 3-year maturity	5%

The reserve requirements also apply to gold deposit accounts. Furthermore, banks are permitted to maintain: (a) a portion of the Turkish Lira reserve requirements in U.S. Dollars and/or Euro and another portion of the Turkish Lira reserve requirements in standard gold and (b) a portion or all of the reserve requirements applicable to precious metal deposit accounts in standard gold, which portions are revised from time to time by the Central Bank. In addition, banks are required to maintain their required reserves against their U.S. Dollar-denominated liabilities in U.S. Dollars only.

Furthermore, pursuant to the Communiqué Regarding Reserve Requirements entered into force on 17 January 2014, a bank must establish additional mandatory reserves if its financial leverage ratio falls within certain intervals. The financial leverage ratio is calculated according to the division of a bank's capital into the sum of the following items:

(a) its total liabilities,

(b) its total non-cash loans and obligations,

(c) its revocable commitments *multiplied by* 0.1,

(d) the total sum of each of its derivatives commitments *multiplied by* its respective loan conversion rate, and

(e) its irrevocable commitments.

This additional mandatory reserve amount is calculated quarterly according to the arithmetic mean of the monthly leverage ratio.

A bank also must maintain mandatory reserves for six mandatory reserve periods beginning with the fourth calendar month following an accounting period and additional mandatory reserves for liabilities in Turkish Lira and foreign currency, as set forth below:

Calculation Period for the Leverage Ratio	Leverage Ratio	Additional Reserve Requirement
From the 4th quarter of 2013 through the 3rd quarter of 2014	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.25%	1.5%
	From 3.25% (inclusive) to 3.5%	1.0%
From the 4th quarter of 2014 through the 3rd quarter of 2015	Below 3.0%	2.0%
	From 3.0% (inclusive) to 3.50%	1.5%
	From 3.50% (inclusive) to 4.0%	1.0%
Following the 4th quarter of 2015 (inclusive)	Below 3.0%	2.0%
	From 3.0% (inclusive) to 4.0%	1.5%
	From 4.0% (inclusive) to 5.0%	1.0%

Reserve accounts kept in Turkish Lira may be interest-bearing pursuant to guidelines adopted by the Central Bank from time to time according to the reserve requirement manual issued by the Central Bank on 11 April 2014.

According to the Regulation on the Measurement and Evaluation of the Liquidity Adequacy of Banks issued by the BRSA and announced in the Official Gazette dated 1 November 2006 and numbered 26333, the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. On a weekly basis, a bank must maintain: (a) a 100% liquidity adequacy ratio for the first maturity period (assets and liabilities maturing within seven days are taken into account in calculations on a weekly average as defined by the regulation) and the second maturity period (assets and liabilities maturing within 31 days of the last working day are taken into account) on an aggregate basis and (b) a 80% liquidity adequacy ratio on a foreign currency-only basis.

Foreign Exchange Requirements

According to the Regulation on Foreign Exchange Net Position/Capital Base, issued by the BRSA and published in the Official Gazette dated 1 November 2006 and numbered 26333, for both the bank-only and consolidated financial statements, the ratio of a bank's foreign exchange net position to its capital base should not exceed (+/-) 20%, which calculation is required to be made on a weekly basis. The net foreign exchange position is the difference between the Turkish Lira-equivalent of a bank's foreign exchange assets and its foreign exchange liabilities. For the purpose of computing the net foreign exchange position, foreign exchange assets include all active foreign exchange accounts held by a bank (including its foreign branches), its foreign exchange-indexed assets and its subscribed forward foreign exchange purchases; for purposes of computing the net foreign exchange position, foreign exchange liabilities include all passive foreign exchange accounts held by a bank (including its foreign branches), its subscribed foreign exchange-indexed liabilities and its subscribed forward foreign exchange sales. If the ratio of a bank's net foreign exchange position to its capital base exceeds (+/-) 20%, then the bank is required to take steps to move back into compliance within two weeks following the bank's calculation period. Banks are permitted to exceed the legal net foreign exchange position to capital base ratio up to six times per calendar year.

Audit of Banks

According to Article 24 of the Banking Law, banks' boards of directors are required to establish audit committees for the execution of the audit and monitoring functions of the board of directors. Audit committees shall consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the bank's internal control, risk management and internal audit systems, functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, and integrity of the information produced; conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; regularly monitoring the activities of independent audit firms selected by the board of directors; and, in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the Regulation on Authorisation and Activities of Institutions to Perform External Audit in Banks, published in the Official Gazette on 1 November 2006 and numbered 26333. Independent auditors are held liable for damages and losses to third parties and are subject to stricter reporting obligations. Professional liability insurance is required for: (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service-acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year-end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

All banks (public and private) also undergo annual audits and interim audits by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities and foreign exchange transactions. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through on-site and off-site examinations.

Cancellation of Banking License

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event that the BRSA in its sole discretion determines that:

(a) the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due,

(b) the bank is not complying with liquidity requirements,

(c) the bank's profitability is not sufficient to conduct its business in a secure manner due to disturbances in the relation and balance between expenses and profit,

(d) the regulatory equity capital of such bank is not sufficient or is likely to become insufficient,

(e) the quality of the assets of such bank have been impaired in a manner potentially weakening its financial structure,

(f) the decisions, transactions or applications of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA,

(g) such bank fails to establish internal audit, supervision and risk management systems or to effectively and sufficiently conduct such systems or any factor impedes the audit of such systems, or

(h) imprudent acts of such bank's management materially increase the risks stipulated under the Banking Law and relevant legislation or potentially weaken the bank's financial structure,

then the BRSA may require the board of directors of such bank:

(i) to increase its equity capital,

(ii) not to distribute dividends for a temporary period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund,

(iii) to increase its loan provisions,

(iv) to stop extension of loans to its shareholders,

(v) to dispose of its assets in order to strengthen its liquidity,

(vi) to limit or stop its new investments,

(vii) to limit its salary and other payments,

(viii) to cease its long-term investments,

(ix) to comply with the relevant banking legislation,

(x) to cease its risky transactions by re-evaluating its credit policy,

(xi) to take all actions to decrease any maturity, foreign exchange and interest rate risks for a period determined by the BRSA and in accordance with a plan approved by the BRSA, and/or

(xii) to take any other action that the BRSA may deem necessary.

In the event that the aformentioned actions are not taken (in whole or in part) by the applicable bank, its financial structure cannot be strengthened despite the fact that such actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSB may require such bank to:

(a) strengthen its financial structure, increase its liquidity and/or increase its capital adequacy,

(b) dispose of its fixed assets and long-term assets within a reasonable time determined by the BRSA,

(c) decrease its operational and management costs,

(d) postpone its payments under any name whatsoever, excluding the regular payments to be made to its employees,

(e) limit or prohibit extension of any cash or non-cash loans to certain third persons, legal entities, risk groups or sectors,

(f) convene an extraordinary general assembly in order to change some or all of the members of the board of directors or assign new member(s) to the board of directors, in the event any board member is responsible for a failure to comply with relevant legislation, a failure to establish efficient and sufficient operation of internal audit, internal control and risk management systems or non-operation of these systems efficiently or there is a factor that impedes supervision or such member(s) of the board of directors cause(s) to increase risks significantly as stipulated above,

(g) implement short-, medium- or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank and the members of the board of directors and the shareholders with qualified shares must undertake the implementation of such plan in writing, and/or

(h) to take any other action that the BRSA may deem necessary.

In the event that the aforementioned actions are not taken (in whole or in part) by the applicable bank, the problem cannot be solved despite the fact that the actions have been taken or the BRSA determines that taking such actions will not lead to getting a favorable result, then the BRSB may require such bank to:

(a) limit or cease its business or the business of the whole organisation, including its relations with its local or foreign branches and correspondents, for a temporary period,

(b) apply various restrictions, including restrictions on the interest rate and maturity with respect to resource collection and utilisation,

(c) remove from office (in whole or in part) some or all of its members of the board of directors, general manager and deputy general managers and department and branch managers and obtain approval from the BRSA as to the persons to be appointed to replace them,

(d) make available long-term loans; *provided* that these will not exceed the amount of deposit or participation accounts subject to insurance, and be secured by the shares or other assets of the controlling shareholders,

(e) limit or cease its non-performing operations and to dispose of its non-performing assets,

(f) merge with one or several banks,

(g) provide new shareholders in order to increase its equity capital,

(h) deduct any resulting losses from its own funds, and/or

(i) take any other action that the BRSA may deem necessary.

In the event that: (a) the aforementioned actions are not (in whole or in part) taken by the applicable bank within a period of time set forth by the BRSB or in any case within 12 months, (b) the financial structure of such bank cannot be strengthened despite its having taken such actions, (c) it is determined that taking these actions will not lead to the strengthening of the bank's financial structure, (d) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation account owners and the security and stability of the financial system, (e) such bank cannot cover its liabilities as they become due, (f) the total amount of the liabilities of such bank exceeds the total amount of its assets or (g) the controlling shareholders or directors of such bank are found to have utilised such bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may cancel the operating license of such bank or, if such bank is not a development and investment bank, transfer the management, supervision and control of the shareholding rights (excluding dividends) of such bank to the SDIF for the purpose of whole or partial transfer or sale of such bank to third persons or the merger thereof; *provided* that any loss is deducted from the share capital of current shareholders.

In the event that the operating license of the Bank or another development and investment bank is cancelled, then such development and investment bank will be liquidated pursuant to the general execution and bankruptcy rules of the Republic of Turkey.

Annual Reporting

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual reports. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

Furthermore, Turkish companies (including banks) are required to comply with the Regulation regarding Determination of the Minimum Content of the Companies' Annual Reports published by the Ministry of Customs and Trade, as well as the Corporate Governance Communiqué, when preparing their annual reports. These reports include the following information: management and organisation structures, human resources, evaluation of the year, information on the bank's corporate governance practices, corporate governance compliance report, assessment of financial standing, profitability and solvency, assessment of management and expectations and a summary of the directors' report and independent auditor's report.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

According to the Communiqué on Principles of Financial Reporting in Capital Markets published in the Official Gazette dated 13 June 2013 and numbered 28676 and the BRSA regulations, the chairman of the board, audit committee, general manager, deputy general manager responsible for financial reporting and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records.

Independent auditors must approve the annual reports prepared by the banks.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

According to CMB regulations, the annual report is subject to the approval of the board of directors and must be submitted to shareholders on the Public Disclosure Platform and published on the Bank's website at least three weeks before the annual general assembly of the bank. Pursuant to BRSA regulations, banks must submit an electronic copy of their annual reports to the BRSA within seven days following the publication of the reports. Banks must also keep a copy of such reports in their headquarters and an electronic copy of the annual report should be available at a bank's branches in order to be printed and submitted to the shareholders upon request. In addition they must publish them on their websites by the end of May following the end of the relevant fiscal year.

Disclosure of Financial Statements

With the Communiqué on Financial Statements to be Disclosed to the Public published in the Official Gazette No. 28337 dated 28 June 2012, new principles of disclosure of annotated financial statements of banks were promulgated. The amendments to the calculation of risk-weighted assets and their implications for capital adequacy ratios are reflected in the requirements relating to information to be disclosed to the public and new standards of disclosure of operational, market, currency and credit risk were determined. In addition, new principles were determined with respect to the disclosure of position risks relating from (*inter alia*) securitisation transactions and investments in quoted stocks.

Financial Services Fee

Pursuant to Heading XI of Tariff No. 8 attached to the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

Corporate Governance Principles

On 3 January 2014, the CMB issued Corporate Governance Communiqué replacing the Communiqué on the Determination and Implementation of Corporate Governance Principles Series IV, No. 56 dated 30 December 2011. The Corporate Governance Communiqué provides certain mandatory and non-mandatory corporate governance principles as well as rules regarding related-party transactions and a company's investor relations department. Some provisions of the Corporate Governance Communiqué are applicable to all companies incorporated in Turkey and listed on the Borsa Istanbul, whereas some others are applicable solely to companies whose shares are traded in certain markets of the Borsa Istanbul. The Corporate Governance Communiqué provides specific exemptions and/or rules applicable to banks that are traded on the Borsa İstanbul.

As of the date of this Prospectus, the Bank is subject to the Corporate Governance Principles stated in the banking regulations and the regulations for capital markets that are applicable to banks. Where the Bank does not comply with any of the non-mandatory principles applicable to it under the Corporate Governance Communiqué, it will explain any such non-compliance in its annual Corporate Governance Principles Compliance Report, which is published as part of the Bank's annual report.

The Corporate Governance Communiqué contains principles relating to: (a) companies' shareholders, (b) public disclosure and transparency, (c) the stakeholders of companies and (d) the board of directors. A number of principles are compulsory, while the remaining principles apply on a "comply or explain" basis. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free-float shares, subject to recalculation on an annual basis.

The mandatory principles under the Corporate Governance Communiqué include provisions relating to: (a) the composition of the board of directors, (b) appointment of independent board members, (c) board committees, (d) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué and (e) information rights in connection with general assembly meetings.

Listed companies are required to have independent board members, who should meet the mandatory qualifications required for independent board members as set out in the Corporate Governance Communiqué. Independent board members should constitute one-third of the board of directors and should not be fewer than two; *however*, publicly traded banks are required to appoint at least three independent board members to their board of directors. The members of a bank's audit committee are qualified as independent board members, in which case the above-mentioned qualifications for independent members are not applicable; *provided* that when all independent board members are selected from the audit committee, at least one member should meet the mandatory qualification required for independent board members as set out in the Corporate Governance Communiqué. The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independency" of individuals nominated as independent board members in "1st Group and 2nd Group" companies (for banks, to the extent such independent board members are not members of that bank's audit committee). Those nominated for such positions must be evaluated by the "Corporate Governance Committee" or the "Nomination Committee," if any, of the board of directors for fulfilling the applicable criteria stated in the Corporate Governance Communiqué. The Corporate Governance Communiqué also requires listed companies, except banks, to establish certain other board committees. The Bank is classified as a "2nd Group" company.

In addition to the mandatory principles regarding the composition of the board and the independent board members, the Corporate Governance Communiqué introduced specific corporate approval requirements for all material related party transactions. All those types of transactions shall be approved by the majority of the independent board members. If not, then they shall be brought to the general assembly meeting where related parties to those transactions are not allowed to vote. Meeting quorum shall not be sought for these resolutions and the resolution quorum is the simple majority of the attendees who may vote. For banks and financial institutions, transactions with related parties arising from their ordinary activities are not subject to the requirements of related party transactions.

The Capital Markets Law authorises the CMB to require listed companies to comply with the corporate governance principles in whole or in part and to take certain measures with a view to ensure compliance with the new principles, which include requesting injunctions from the court or filing lawsuits to determine or to revoke any unlawful transactions or actions that contradict with these principles.

Anti-Money Laundering

Turkey is a member country of the FATF and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfill certain requirements regarding the treatment of activities that may be referred to as money laundering set forth in Law No. 5549 on Prevention of Laundering Proceeds of Crime. See "Risk Factors – Political, Economical and Legal Risks Related to Turkey – Combating the Financing of Terrorism."

Minimum standards and duties under such law and related legislation include customer identification, record keeping, suspicious transaction reporting, employee training, monitoring activities and the designation of a compliance officer. Suspicious transactions must be reported to the Financial Crimes Investigation Board.

CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes (the "Conditions") which (except for the paragraphs in italics) will be endorsed on the definitive Certificates issued in respect of the Notes:

The US$350,000,000 5.375% Notes due 2019 (the "*Notes*", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of Türkiye Sınai Kalkınma Bankası A.Ş. (the "*Issuer*") are issued subject to and with the benefit of a Fiscal Agency Agreement dated 27 October 2014 (such agreement as amended and/or supplemented and/or restated from time to time, the "*Agency Agreement*") made among the Issuer, Citigroup Global Markets Deutschland AG as registrar (the "*Registrar*"), Citibank, N.A., London Branch as fiscal agent and principal paying agent (the "*Fiscal Agent*") and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the "*Paying Agents*") and the other agents named in it (together with the Fiscal Agent, the Registrar and the other Paying Agents, the "*Agents*"). The holders of the Notes are entitled to the benefit of a Deed of Covenant (the "*Deed of Covenant*") dated 27 October 2014 and made by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the Noteholders at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. References in these Conditions to any Agent shall include any successor appointed under the Agency Agreement.

Investors in the Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in amounts of US$200,000 and in integral multiples of US$1,000 in excess thereof (referred to as the "*principal amount*" of a Note and each an "*Authorised Denomination*"). A note certificate (each a "*Certificate*") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which will be kept by the Registrar. The Notes are issued pursuant to the Turkish Commercial Code (Law No. 6102), the Capital Markets Law (Law No. 6362) of the Republic of Turkey ("*Turkey*") and the Communiqué Serial: II, No: 31.1 on Debt Instruments of the Capital Markets Board of Turkey (in Turkish: *Sermaye Piyasası Kurulu*) (the "*CMB*").

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "*Noteholder*" and (in relation to a Note) "*holder*" means the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see "Book-Entry Clearance Systems."

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may be transferred in an Authorised Denomination only by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon a transfer of the Notes will, within five business days of receipt by the Registrar or the relevant other Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition 2, "*business day*" shall mean a day on which commercial banks are open for general business including dealings in foreign currencies in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in "The Global Certificate – Registration of Title," owners of interests in the Notes will not be entitled to receive physical delivery of Certificates.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant other Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of a transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment by the Noteholder of (or the giving of such indemnity as the Issuer or any Agent may reasonably require in respect of) any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. STATUS

The Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any Note remains outstanding, the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a "*Security Interest*") upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness;

(b) such Security Interest is terminated;

(c) such other arrangement (whether or not it includes the giving of a Security Interest) is provided for the benefit of the Noteholders as is approved by an Extraordinary Resolution of the Noteholders; or

(d) such Security Interest is provided as is approved by an Extraordinary Resolution of the Noteholders.

Nothing in this Condition 4.1 shall prevent the Issuer from creating or permitting to subsist any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to: (i) a bond, note or other indebtedness whereby the payment obligations are secured by a segregated pool of assets (whether held by the Issuer or any third party guarantor) (any such bond, note or other indebtedness, a "*Covered Bond*"), or (ii) any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged principally from such assets or revenues (or in the case of Direct Recourse Securities, by direct unsecured recourse to the Issuer); *provided* that the aggregate then-existing balance sheet value of assets or revenues subject to any Security Interest created in respect of: (A) Covered Bonds that are Relevant Indebtedness and (B) any other secured Relevant Indebtedness (other than Direct Recourse Securities) of the Issuer, when added to the nominal amount of any outstanding Direct Recourse Securities that are Relevant Indebtedness, does not, at the time of the incurrence thereof, exceed 15 per cent. of the consolidated total assets of the Issuer (as shown in the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS).

4.2 Interpretation

For the purposes of these Conditions:

"*Direct Recourse Securities*" means securities (other than Covered Bonds) issued in connection with any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by a Security Interest or having the benefit of a Security Interest are to be discharged principally from such assets or revenues, or by direct unsecured recourse to the Issuer;

"*IFRS*" means the requirements of International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (the "*IASB*") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time); and

"*Relevant Indebtedness*" means: (a) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other organised securities market and having a maturity in excess of 365 days or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction and (b) any guarantee or indemnity of any such indebtedness.

5. COVENANTS

5.1 Maintenance of Authorisations

So long as any of the Notes remains outstanding, the Issuer shall take all necessary action to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in Turkey (including, without limitation, with the CMB and the Banking Regulatory and Supervisory Agency (in Turkish: *Bankacılık Düzenleme ve Denetleme Kurumu*) (the "*BRSA*")) for: (a) the execution, delivery or performance of the Agency Agreement, the Deed of Covenant and the Notes or for the validity or enforceability thereof, or (b) save to the extent any failure to do so does not and would not have a material adverse effect on: (i) the business, financial condition or results of operations of the Issuer or (ii) the Issuer's ability to perform its obligations under the Notes, the conduct by it of the Permitted Business.

5.2 Transactions with Affiliates

So long as any of the Notes remains outstanding, the Issuer shall not, and shall not permit any of its Material Subsidiaries to, in any 12 month period: (a) make any payment to, (b) sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, (c) purchase any properties, revenues or assets from or (d) enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) with or for the benefit of, any Affiliate (each, an "*Affiliate Transaction*") which Affiliate Transaction has (or, when taken together with any other Affiliate Transactions during such 12 month period, in the aggregate have) a value in excess of US$10,000,000 (or its equivalent in any other currency) unless such Affiliate Transaction (and each such other aggregated Affiliate Transaction) is on terms that are no less favourable to the Issuer or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Subsidiary with an unrelated Person.

5.3 Financial Reporting

So long as any of the Notes remains outstanding, the Issuer shall deliver to the Fiscal Agent for distribution to any Noteholder upon such Noteholder's written request to the Fiscal Agent:

(a) not later than six months after the end of each financial year of the Issuer, English language copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied and BRSA accounting standards ("*BRSAAS*"), together with the corresponding financial statements for the preceding financial year, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon; and

(b) not later than four months after the end of the first six months of each financial year of the Issuer, English language copies of its unaudited consolidated financial statements for such six month period, prepared in accordance with IFRS consistently applied and BRSAAS, together with the financial statements for the corresponding period of the previous financial year, and all such interim financial statements of the Issuer shall be accompanied by a review report of the auditors thereon.

5.4 Interpretation

For the purposes of these Conditions:

"*Affiliate*" means, in respect of any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, *control*, as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise and the terms *controlling*, *controlled by* and *under common control with* shall have corresponding meanings.

"*Material Subsidiary*" means at any time a Subsidiary of the Issuer:

(a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited IFRS financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries; *provided* that: (i) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate or (ii) in the case of any such Subsidiary for which its then latest relevant audited accounts, at the time of such acquisition, are not prepared in accordance with IFRS, the reference to the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries and the relevant then latest audited IFRS financial statements of such Subsidiary for the purposes of the calculation above shall, until consolidated or, as the case may be, IFRS accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such consolidated IFRS financial statements of the Issuer and its Subsidiaries as if such Subsidiary had been shown in those financial statements by reference to such Subsidiary's then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer (including to reflect a conversion of such accounts into IFRS if the then latest relevant audited accounts of such Subsidiary were not prepared in accordance with IFRS);

(b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer that immediately prior to such transfer is a Material Subsidiary; *provided* that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary pursuant to this sub-paragraph (b) but shall cease to be a Material Subsidiary on the date of publication of the Issuer's next audited consolidated IFRS financial statements unless it would then be a Material Subsidiary under sub-paragraph (a) above; or

(c) to which is transferred an undertaking or assets that, taken together with the undertaking or assets of the transferee Subsidiary, represent (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (calculated as set out in sub-paragraph (a) above); *provided* that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer, its assets represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole (all as calculated as set out in sub-paragraph (a) above), and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this sub-paragraph (c) on the date of the publication of the Issuer's next consolidated audited IFRS financial statements, save that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of sub-paragraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report by the auditors of the Issuer that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

"*Permitted Business*" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Issuer on the Issue Date.

"*Person*" means: (a) any individual, company, unincorporated association, government, state agency, international organisation or other entity and (b) its successors and assigns.

"*Subsidiary*" means, in relation to any Person, any company: (a) in which such Person holds a majority of the voting rights, (b) of which such Person is a member and has the right to appoint or remove a majority of the board of directors or (c) of which such Person is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of such Person. In relation to the consolidated financial statements of the Issuer, a "*Subsidiary*" shall also include any other Person that is (in accordance with IFRS) consolidated with the Issuer.

6. INTEREST

6.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 27 October 2014 (the "*Issue Date*") at the rate of 5.375 per cent. *per annum*, payable semi-annually in arrear in equal instalments of US$26.875 per US$1,000 in principal amount of the Notes on each of 30 April and 30 October (each an "*Interest Payment Date*") in each year; *provided* that the first payment of interest (which shall be made on 30 April 2015) shall amount to US$27.323 per US$1,000 in principal amount of the Notes.

6.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 13.

6.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

7. PAYMENTS

7.1 Payments in respect of Notes

Payment of principal and interest on a Note will be made by transfer to the registered account of the relevant Noteholder or by U.S. Dollar cheque drawn on a bank that processes payments in U.S. Dollars mailed to the registered address of such Noteholder if it does not have a registered account. Notwithstanding anything else herein to the contrary, payments of interest due otherwise than on an Interest Payment Date and payments of principal will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the "*record date*") being the 15th day before the due date for the payment of interest (or, if such 15th day is not a London Business Day, the first London Business Day prior to such 15th day).

For the purposes of this Condition 7.1, a Noteholder's registered account means the U.S. Dollar account maintained by or on behalf of it with a bank that processes payments in U.S. Dollars, details of which appear on the register of Noteholders at the close of business: (a) in the case of principal, on the second Payment Business Day (as defined in Condition 7.4) before the due date for payment, and (b) in the case of a payment of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder's registered address means its address appearing on the register of Noteholders at that time. Payment of the interest due in respect of each Note on redemption will be made in the same manner as payment of the principal amount of such Note.

In this Condition 7.1, "*London Business Day*" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in London.

7.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to: (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "*Code*"), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof ("*FATCA*") or any law implementing an intergovernmental approach to FATCA.

7.3 No Commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 7.

7.4 Payment on Business Days

Where payment is to be made: (a) by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated, and (b) by cheque, the cheque will be mailed on or before the Payment Business Day preceding the due date for payment; *provided* that, with respect to both sub-paragraphs (a) and (b), in the case of a payment of interest due otherwise than on an Interest Payment Date, or any payment of principal, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent (provided that if such Certificate is surrendered later than 10:00 a.m. (London time) on any Payment Business Day, then such payment may be initiated or mailed (as applicable) on the following Payment Business Day).

A Noteholder will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or a cheque mailed in accordance with this Condition arrives after the due date for payment or is lost in the post.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of Clearstream, Luxembourg or Euroclear or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

In these Conditions, "*Payment Business Day*" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign currencies) in New York City, London and Istanbul and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

7.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

7.6 Agents

The names of the initial Agents and their initial specified offices are set out immediately following these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Fiscal Agent;

(b) so long as the Notes are listed on the Irish Stock Exchange, there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in such place as may be required by the rules and regulations of the Irish Stock Exchange or any other relevant authority;

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent that is not located in a Member State of the European Union that will oblige that Paying Agent to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;

(d) there will at all times be a Paying Agent in a jurisdiction other than the jurisdiction in which the Issuer is incorporated; and

(e) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes to the specified office of an Agent will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

8. REDEMPTION AND PURCHASE

8.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 30 October 2019.

8.2 Redemption for Taxation Reasons

If:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws or regulations of a

Relevant Jurisdiction, which change or amendment becomes effective after 23 October 2014, on the next Interest Payment Date, the Issuer would be required to:

(i) pay additional amounts as provided or referred to in Condition 9; and

(ii) make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, at a rate in excess of the prevailing applicable rates on 23 October 2014; and

(b) such requirement cannot be avoided by the Issuer taking reasonable measures available to it,

then the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent: (i) a certificate signed by two Directors of the Issuer stating that the requirement referred to in sub-paragraph (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

8.3 Purchases

The Issuer or any of its Subsidiaries may at any time purchase or otherwise acquire Notes in any manner and at any price. Such Notes may be held, resold or, at the option of the Issuer or any such Subsidiary (as the case may be) for those Notes held by it, surrendered to any Paying Agent and/or the Registrar for cancellation.

8.4 Cancellations

All Notes that are redeemed by or on behalf of the Issuer will forthwith be cancelled and, accordingly, may not be held, re-issued or resold.

8.5 Notices Final

Upon the expiry of any notice as is referred to in Condition 8.2 above, the Issuer shall be bound to redeem the Notes in accordance with the terms of such Condition.

9. TAXATION

9.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("*Taxes*") imposed or levied by or on behalf of any Relevant Jurisdiction unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) to a holder (or to a third party on behalf of a holder) who is liable for Taxes in respect of the Note by reason of such holder having some connection with any Relevant Jurisdiction other than the mere holding of the Note; or

(b) presented for payment in Turkey; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or

(e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Business Day (as defined in Condition 7.6).

Notwithstanding any other provision of these Conditions, in no event will the Issuer be required to pay any additional amounts in respect of the Notes for, or on account of, any withholding or deduction required pursuant to FATCA (including pursuant to any agreement described in Section 1471(b) of the Code) or any law implementing an intergovernmental approach to FATCA.

9.2 Interpretation

In these Conditions:

(a) "*Relevant Date*" means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13; and

(b) "*Relevant Jurisdiction*" means Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

9.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 9.

10. PRESCRIPTION

The Notes will become void unless claims in respect of principal and/or interest with respect thereto are made within a period of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 9.

11. EVENTS OF DEFAULT

11.1 Events of Default

The holder of any Note may give notice to the Issuer that such Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to (but excluding) the date of repayment, if any of the following events (each, an "*Event of Default*") shall have occurred and be continuing:

(a) if default is made by the Issuer in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 14 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) if: (i) any Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Material Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, subject to any originally applicable grace period; (iii) any security given by the Issuer or any of its Material Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Material Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, subject to any applicable grace period; *provided* that the aggregate principal amount of: (A) such Indebtedness for Borrowed Money of the Issuer or the relevant Material Subsidiary in the case of sub-paragraphs (i), (ii) and/or (iii) above, and/or (B) the maximum amount payable by the Issuer or the relevant Material Subsidiary under such guarantee and/or indemnity of the Issuer or the relevant Material Subsidiary in the case of sub-paragraph (iv) above, exceeds US$10,000,000 (or its equivalent in other currencies); or

(d) if:

(i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries; or

(ii) the Issuer ceases or threatens to cease to carry on the whole or a substantial part, or any Material Subsidiary ceases or threatens to cease to carry on the whole or substantially the whole, in each case, of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Material Subsidiaries suspends or threatens to suspend payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated, declared or found by a competent authority to be (or becomes) bankrupt or insolvent; or

(iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness; or

(iv) the Issuer or any of its Material Subsidiaries: (A) takes any corporate action or other steps are taken or legal proceedings are started: (x) for its winding-up, dissolution, administration, bankruptcy or re-organisation (other than for the purposes of and followed by a reconstruction while solvent upon terms previously approved by an Extraordinary Resolution of Noteholders) or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (B) shall or propose to make a general assignment for the benefit of its creditors or shall enter into any general arrangement or composition with its creditors;

in each case in sub-paragraphs (i) to (iv) above, save for the solvent voluntary winding up, dissolution or re-organisation of any Material Subsidiary in connection with any combination with, or transfer of the whole or substantially the whole of its business and/or assets to, the Issuer or one or more other Subsidiaries of the Issuer, or

(e) if the banking licence of the Issuer is temporarily or permanently revoked.

11.2 Interpretation

For the purposes of this Condition 11 (*Events of Default*):

"*Indebtedness for Borrowed Money*" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of:

(a) any notes, bonds, debentures, debenture stock, loan stock or other securities;

(b) any borrowed money; or

(c) any liability under or in respect of any acceptance or acceptance credit.

12. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection with the replacement and on such terms as to: (a) evidence of such loss, theft, mutilation, defacement or destruction and (b) indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. NOTICES TO THE NOTEHOLDERS

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

14. MEETINGS OF NOTEHOLDERS AND MODIFICATION

14.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more person(s) present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more person(s) present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more person(s) present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

14.2 Modification

The Fiscal Agent and the Issuer may agree in writing, without the consent of the Noteholders, to any modification of any of these Conditions, the Deed of Covenant or any of the provisions of the Agency Agreement which is, in the opinion of the Issuer, either: (a) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (b) following the advice of an independent financial institution of international standing not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding on the Noteholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further notes having terms and conditions the same as those of the Notes, or the same in all respects save for the amount and date of the first payment of interest and the date from which interest starts to accrue, which may be consolidated and form a single series with the outstanding Notes.

16. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, the Agency Agreement or the Deed of Covenant, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing Law

The Agency Agreement, the Deed of Covenant and the Notes are, and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant and the Notes will be, governed by and construed in accordance with English law.

17.2 Jurisdiction of courts of England

The Issuer irrevocably agrees for the benefit of the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly has submitted to the exclusive jurisdiction of the courts of England. The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

The Noteholders may take any suit, action or proceedings arising out of or in connection with the Notes (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Notes) (together referred to as "*Proceedings*") against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions to the extent allowed by law.

17.3 Consent to Enforcement

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the courts of England according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (Law No. 6100), any judgment obtained in the courts of England in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer, pursuant to the provisions of the first paragraph of Article 193 of the Civil Procedure Code of Turkey (Law No. 6100) and Articles 58 and 59 of the International Private and Procedural Law of Turkey (Law No. 5718).

17.4 Appointment of Process Agent

The Issuer hereby irrevocably and unconditionally agrees that service of process in England may be made upon London branch of Türkiye İş Bankası A.Ş. (with an address on the Issue Date of 8 Princes Street London EC2R 8HL, England) in relation to any proceedings in England in connection with the Notes. in respect of any Proceedings and undertakes that in the event of such agent being unable or unwilling for any reason so to act, it will as promptly as practicable appoint another person as its agent for that purpose.

17.5 Other Documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the exclusive jurisdiction of the courts of England and appointed an agent in England for service of process, on terms substantially similar to those set out above.

THE GLOBAL CERTIFICATE

The Global Certificate will contain the following provisions that apply to the Notes in respect of which it is issued while they are represented by the Global Certificate, some of which modify the effect of the Conditions of such Notes. Terms defined in the Conditions of the Notes have the same meaning in paragraphs 1 to 6 below.

1. ACCOUNTHOLDERS

For so long as any of the Notes are represented by the Global Certificate, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "*Accountholder*") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" or purchase or other acquisition of Notes and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, solely in the nominee for the relevant clearing system (the "*Relevant Nominee*") in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

2. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Issuer or any of its Subsidiaries will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the Global Certificate.

3. PAYMENTS

Payments of principal in respect of Notes represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of the Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to Euroclear or Clearstream, Luxembourg, which in turn are expected to distribute such amounts to their accountholders in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

Payments of principal and interest in respect of the Global Certificate will be made, or procured to be made, by or on behalf of the Issuer for settlement on the relevant payment date in accordance with Clause 8 of the Agency Agreement.

4. NOTICES

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 13. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to such clearing system.

While any of the Notes held by a Noteholder are represented by the Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through the applicable clearing system's operational procedures and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

5. REGISTRATION OF TITLE

Registration of title to Notes in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate and a successor clearing system is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Notes so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

6. TRANSFERS

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective accountholders in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect accountholders, as more fully described under "Book-Entry Clearance Systems."

7. EXCHANGE FOR CERTIFICATES

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Certificates only upon the occurrence of an Exchange Event. For these purposes, "*Exchange Event*" means that: (a) an Event of Default has occurred and is continuing, (b) the Issuer has been notified that Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (c) the Issuer has or will become obliged to pay additional amounts that it would not be obliged to pay were the Notes represented by the Global Certificate in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (as applicable) or any person acting on their behalf (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of each of Clearstream, Luxembourg and Euroclear currently in effect. Certain information in this section concerning Clearstream, Luxembourg and Euroclear has been obtained from such clearing systems' respective publications, but neither the Bank nor any Joint Lead Manager takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of Clearstream, Luxembourg or Euroclear are advised to confirm the continued applicability of the rules, regulations and procedures of such facilities.

None of the Bank nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of Clearstream, Luxembourg or Euroclear or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

In accordance with the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the CRA and the interests therein recorded in the CRA; *however*, upon the Bank's request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside of Turkey. Further to the Bank's submission of an exemption request to the CMB, such exemption has been granted by the CMB to the Bank in the CMB Approval. As a result, this requirement will not be applicable to the Notes. Notwithstanding such exemption, the Issuer is required to notify the CRA within three Turkish business days from the date of issuance of the Notes of the amount, issue date, ISIN code, the first payment date, maturity date, interest rate, name of the custodian, currency of the Notes and country of issuance.

Book-Entry Systems

Clearstream, Luxembourg

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depositary. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of a number of currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in several countries through established depositary and custodial relationships.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the *Commission de Surveillance du Secteur Financier* and the *Banque Centrale du Luxembourg*, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg's customers are recognised financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

The ability of an owner of a beneficial interest in a Note held by Clearstream, Luxembourg to pledge such interest to persons or entities that do not participate in the Clearstream, Luxembourg system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Clearstream, Luxembourg can act only on behalf of Clearstream, Luxembourg's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of the Notes through the Clearstream, Luxembourg system will receive distributions of principal, interest, additional amounts (if any) and any other payments on the Notes only through Clearstream, Luxembourg accountholders.

Distributions with respect to interests in the Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg accountholders in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

Euroclear

Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between its accountholders. Euroclear provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear also deals with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear is available to other institutions that clear through or maintain a custodial relationship with accountholders in Euroclear.

The ability of an owner of a beneficial interest in a Note held by Euroclear to pledge such interest to persons or entities that do not participate in the Euroclear system, or otherwise take action in respect of such interest, may be limited by the lack of a definitive note for such interest because Euroclear can act only on behalf of Euroclear's customers, who in turn act on behalf of their own customers. The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in the Notes to such persons may be limited. In addition, beneficial owners of the Notes through the Euroclear system will receive distributions of principal, interest, additional amounts (if any) and any other payments on the Notes only through Euroclear accountholders.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to cash accounts of Euroclear accountholders in accordance with its rules and procedures, to the extent received by Euroclear.

Book-Entry Ownership of and Payments in Respect of Notes Represented by the Global Certificate

The Bank has applied to each of Euroclear and Clearstream, Luxembourg to have Notes represented by the Global Certificate accepted in its book-entry settlement system. Upon the issue of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, as applicable, will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by the Global Certificate to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg, as applicable. Such accounts initially will be designated by or on behalf of the relevant Joint Lead Manager. Ownership of beneficial interests in the Global Certificate will be limited to direct or indirect participants of Euroclear and/or Clearstream, Luxembourg, as applicable. Ownership of beneficial interests in the Global Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg or its nominee (with respect to the interests of direct Euroclear and/or Clearstream, Luxembourg accountholders) and the records of direct Euroclear and/or Clearstream, Luxembourg accountholders (with respect to interests of indirect Euroclear and/or Clearstream, Luxembourg accountholders).

Payments in U.S. Dollars of principal and interest in respect of the Global Certificate will be made to Clearstream, Luxembourg, Euroclear or their respective nominee, as the case may be, as the registered holder of such Global Certificate. The Bank expects Clearstream, Luxembourg and Euroclear to credit accounts of their respective direct accountholders on the applicable payment date. The Bank also expects that payments by direct Clearstream, Luxembourg or Euroclear accountholders to indirect accountholders in such clearing systems will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers of such clearing system, and will be the responsibility of such accountholder and not the responsibility of such clearing system, the Paying Agent, the Registrar or the Bank. Payments of principal and interest on the Notes to Clearstream, Luxembourg and Euroclear (or their respective nominee) are the responsibility of the Bank. Transfers of any interests in Notes represented by the Global Certificate within Clearstream, Luxembourg or Euroclear, as applicable, will be effected in accordance with applicable law and in accordance with the relevant clearing system's rules and procedures. Because each of Clearstream, Luxembourg and Euroclear can only act on behalf of accountholders in its system who in turn act on behalf of indirect accountholders, the ability of a person having an interest in Notes represented by the Global Certificate to pledge such interest to persons or entities that do not participate in such clearing system or to otherwise take action in respect of such interest may be limited. The ability of any holder of an interest in Notes represented by the Global Certificate to resell, pledge or otherwise transfer such interest may be impaired if the proposed transferee of such interest is not eligible to hold such interest through a direct or indirect participant in the applicable clearing system. On or after the Issue Date, transfers of Notes will generally have a settlement date three Payment Business Days after the trade date (T+3).

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in global certificates among accountholders of Clearstream, Luxembourg or Euroclear; *however*, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bank, the Agents nor any Joint Lead Manager will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by the Global Certificate or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

This is a general summary of certain Turkish and other tax considerations in connection with an investment in the Notes. This summary does not address all aspects of Turkish or any other tax law. While this summary is considered to be a correct interpretation of existing laws in force on the date of this Prospectus, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the tax consequences that may be relevant to an investor in light of such investor's particular circumstances. **Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership or disposition of the Notes (or the purchase, ownership or disposition by an owner of beneficial interests therein) as well as any tax consequences that may arise under the laws of any state, municipality or other taxing jurisdiction.**

References to "*resident*" herein refer to tax residents of Turkey and references to "non-resident" herein refer to persons who are not tax residents of Turkey.

Certain Turkish Tax Considerations

The following discussion is a summary of certain Turkish tax considerations relating to an investment by a person who is a non-resident of Turkey in Notes of a Turkish company issued abroad. The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Notes that may be relevant to a decision to make an investment in the Notes. Furthermore, the discussion only relates to the beneficial interest of a person in the Notes where the Notes will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Prospectus, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident of Turkey or a permanent establishment in Turkey resulting either from the existence of a fixed place of business or appointment of a permanent representative.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable for Turkish taxes on its trading income made through a permanent establishment or on income otherwise sourced in Turkey.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Turkish Income Tax Law may not be treated as a resident of Turkey depending upon the characteristics of the stay. A resident individual is liable for Turkish taxes on his or her worldwide income, whereas a non-resident individual is only liable for Turkish taxes on income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term "accounted for" means that a payment is made in Turkey, or if the payment is made abroad, it is recorded in the books in Turkey or apportioned from the profits of the payer or the person on whose behalf the payment is made in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is required. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation through declaration where exemptions are reserved.

Interest paid on notes (such as the Notes) issued abroad by Turkish corporates is subject to withholding tax. Through the Tax Decrees, the withholding tax rates are set according to the original maturity of notes issued abroad as follows:

- 10% withholding tax for notes with an original maturity of less than one year,
- 7% withholding tax for notes with an original maturity of at least one year and less than three years,
- 3% withholding tax for notes with an original maturity of at least three years and less than five years, and

- 0% withholding tax for notes with an original maturity of five years and more.

Such withholding tax is the final tax for a non-resident person and no further declaration is required.

Interest income derived by a resident corporation or individual is subject to further declaration and the withholding tax paid can be offset from the tax calculated on the return. For resident individuals, the entire gain is required to be declared if the interest income derived exceeds TL 27,000 for 2014 together with the gains from other marketable securities and real income from immovable property that were subjected to withholding. For resident corporations, the total interest income is subject to declaration.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration; *however*, pursuant to Provisional Article 67 of the Turkish Income Tax Law, as amended by the Law number 6111, special or separate tax returns will not be submitted for capital gains from the notes of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on non-resident persons in respect of capital gains from such Notes and no declaration is required.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

Reduced Withholding Tax Rates

Under current Turkish laws and regulations, interest payments on notes issued abroad by a Turkish corporate to a non-resident holder will be subject to a withholding tax at a rate between 10% and 0% (inclusive) in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of the holder of the notes (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term “beneficial owner” is used) that provides for the application of a lower withholding tax rate than the local rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the relevant jurisdiction in which the investor is a resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant jurisdiction on the basis of resident taxpayer status, as a resident of the relevant jurisdiction to the related tax office directly or through the banks and intermediary institutions prior to the application of withholding. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, a refund of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

U.S. Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act (*i.e.*, FATCA) generally imposes a withholding tax of 30% on certain payments to certain non-U.S. financial institutions (including entities such as the Bank) unless such institutions (“*foreign financial institutions*” or “*FFIs*” as defined under the Code) enter into an agreement with the IRS (an “*FFI Agreement*”). Such an agreement will require the provision of certain information regarding the FFI’s “US account holders” (which could include holders of the Notes) to the IRS.

FFI Agreements also require FFIs to withhold up to 30% of amounts payable to account holders that do not provide them with information required to comply with FATCA (“*Recalcitrant Holders*”) or to FFIs that do not enter into an FFI Agreement with the IRS under FATCA and are not otherwise exempt from or in deemed compliance with FATCA (“*Nonparticipating FFIs*”), if such amounts constitute foreign passthru payments (“*Foreign Passthru Payments*”) under FATCA, which term is not yet defined. Such withholding is generally not required on payments made before the later of 1 January 2017 or the date of publication of final regulations defining Foreign Passthru Payments. Further, such withholding on payments with respect to the Notes is required only if the Notes are significantly modified after the Grandfathering Date (*i.e.*, the date that is six months after the date of filing of final regulations defining Foreign Passthru Payments).

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an “*IGA*”). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a

"Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership" or "withholding foreign trust" regimes). Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. On 3 June 2014, the United States and Turkey agreed in substance to enter into an IGA (the "*U.S.-Turkey IGA*") based largely upon the Model 1 IGA. Turkey will be treated as having an IGA in effect until 31 December 2014, at which time an IGA must be signed in order for Turkey to continue to be treated as an IGA jurisdiction.

The Bank's management expects the Bank to be treated as a Reporting FI under the U.S.-Turkey IGA and does not anticipate being obliged to withhold any amounts under FATCA from payments it makes. There can be no assurance, however, that the Bank will be treated as a Reporting FI or that it would not be required to withhold under FATCA or pursuant to the U.S.-Turkey IGA. Regardless of whether the Bank becomes a Reporting FI under the U.S.-Turkey IGA or enters into an FFI Agreement, holders of the Notes may be required to provide the Bank or Paying Agent with certain information, including, but not limited to: (a) information for the Bank to determine whether the beneficial owner of a Note is a United States person as defined in Section 7701(a)(30) of the Code or a United States owned foreign entity as described in Section 1471(d)(3) of the Code and any additional information that the Bank, Paying Agent or their agents requests in connection with FATCA and (b)(i) if the beneficial owner of a Note is a United States person, such United States person's name, address and U.S. taxpayer identification number, or (ii) if the beneficial owner of a Note is a United States-owned foreign entity, the name, address and taxpayer identification number of each of its substantial United States owners as defined in Section 1473(2) of the Code and any other information requested by the Bank, a Paying Agent or their respective agents upon request, and (c) updated information promptly upon learning that any such information previously provided is obsolete or incorrect. Under the U.S.-Turkey IGA, the Bank may have to deliver such information to the government of Turkey, while under a FFI Agreement, the Bank may have to deliver such information to the IRS.

If FATCA were to require that an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on or with respect to the Notes, then neither the Bank nor any paying agent or other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of the Notes should consult their tax advisers regarding the effect, if any, of FATCA on their investment in the Notes.

EU Savings Directive

Under the EU Savings Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State; *however*, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories (including Switzerland) have adopted similar measures (for example, a withholding system in the case of Switzerland). In April 2013, the Luxembourg government announced its intention to abolish the withholding system with effect from 1 January 2015 in favour of automatic information exchange under the Directive.

On 24 March 2014, the European Council adopted an EU Council Directive amending and broadening the scope of the requirements described above. In particular, the changes expand the range of payments covered by the EU Savings Directive to include certain additional types of income, and widen the range of recipients payments to whom are covered by the EU Savings Directive, to include certain other types of entity and legal arrangement. Member States are required to implement national legislation giving effect to these changes by 1 January 2016 (which national legislation must apply from 1 January 2017).

The Proposed Financial Transactions Tax ("*FTT*")

On 14 February 2013, the European Commission published a proposal (the "*Commission's Proposal*") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "*participating Member States*"). The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes is, however, expected to be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State or (b) where the financial instrument that is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, might not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation among the participating Member States and is the subject of legal challenge. It might, therefore, be altered prior to any implementation. Additional EU Member States might decide to participate.

Prospective investors in the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, ING Bank N.V., London Branch and Standard Chartered Bank (*i.e.*, the Joint Lead Managers) have, pursuant to a subscription agreement dated 23 October 2014 (the "*Subscription Agreement*") and made among the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.926 per cent. of the principal amount of Notes, less a combined management, underwriting and selling commission. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

While application has been made by the Bank to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market, the Notes constitute a new class of securities of the Bank with no established trading market. The Bank cannot provide any assurances to investors that the prices at which the Notes (or beneficial interests therein) will sell in the market will not be lower than the initial offering price or that an active trading market for the Notes will develop. The Joint Lead Managers have advised the Bank that they currently intend to make a market in the Notes; *however*, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. No assurance can be given that the application to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market will be accepted.

In connection with the offering, one or more Joint Lead Manager(s) may purchase and sell Notes (or beneficial interests therein) in the secondary market. These transactions may include overallotment, syndicate covering transactions and stabilising transactions. Overallotment involves the sale of Notes (or beneficial interests therein) in excess of the principal amount of Notes to be purchased by the Joint Lead Managers in their initial offering, which creates a short position for the Joint Lead Managers. Covering transactions involve the purchase of the Notes (or beneficial interests therein) in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of Notes (or beneficial interests therein) made for the purpose of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein) while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes (or beneficial interests therein). They may also cause the price of the Notes (or beneficial interests therein) to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Joint Lead Managers may conduct these transactions in the over-the-counter market or otherwise. If the Joint Lead Managers commence any of these transactions, then they may discontinue them at any time.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers or their respective affiliates may have performed investment banking and advisory services for the Bank and its affiliates from time to time for which they may have received fees, expenses, reimbursements and/or other compensation. The Joint Lead Managers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Bank and its affiliates in the ordinary course of their business. Certain of the Joint Lead Managers and/or their respective affiliates have acted and expect in the future to act as a lender to the Bank and/or other members of the Group and/or otherwise participate in transactions with the Group.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Bank and/or other members of the Group. In addition, certain of the Joint Lead Managers and/or their respective affiliates hedge their credit exposure to the Bank and/or other members of the Group pursuant to their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Notes offered hereby.

The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

UNITED STATES

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act

Each Joint Lead Manager has agreed that (except in accordance with Regulation S) it will not offer, sell or deliver the Notes: (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering might violate the registration requirements of the Securities Act.

TURKEY

The Notes have not been and will not be offered or sold within Turkey under the provisions of the Capital Markets Law No. 6362. Each Joint Lead Manager has represented and agreed that neither they, nor any of their respective affiliates, nor any person acting on their behalf, has engaged or will engage in any directed selling efforts within Turkey in connection with the Notes. Each Joint Lead Manager has further represented and agreed that neither they nor any of their respective affiliates, nor any person acting on their behalf: (a) has engaged or will engage in any form of general solicitation or general advertising in connection with any offer and sale of the Notes in Turkey, or (b) will make any disclosure in Turkey in relation to the Issuer, the Notes or the Prospectus without the prior consent of the Issuer, save as may be required by applicable law, court order or regulation. Notwithstanding the foregoing, pursuant to the BRSA decision dated 6 May 2010 No. 3665 and in accordance with Decree 32, residents of Turkey may purchase or sell the Notes offshore on an unsolicited (reverse inquiry) basis in the secondary markets only; *provided* that such purchase or sale is made through licensed banks or licensed brokerage institutions authorised pursuant to BRSA and/or CMB regulations and the purchase price is transferred through licensed banks authorised under BRSA regulations.

UNITED KINGDOM

Each Joint Lead Manager has represented and agreed that: (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "*FSMA*")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

GENERAL

No action has been taken by the Bank or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes (or beneficial interests therein), or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes (or beneficial interests therein) or have in its possession, distribute or publish any Prospectus, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes (or beneficial interests therein) by it will be made on the same terms.

OTHER GENERAL INFORMATION

Authorisation

The issuance and sale of the Notes by the Bank and the execution and delivery by the Bank of the transaction documents have been authorised pursuant to the authority of the officers of the Bank under a resolution of its Board of Directors dated 31 July 2014.

Listing

An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market; *however*, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and trading on the Main Securities Market will be granted on or before the Issue Date, subject only to the issue of the Notes. The expenses in connection with the admission of the Notes to the Official List and to trading on the Main Securities Market are expected to amount to approximately €5,190.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Bank in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

Clearing Systems

The Global Certificate has been accepted into the applicable systems used by Euroclear and Clearstream, Luxembourg (ISIN code XS1117601796 and Common Code number 111760179).

Significant or Material Change

There has been: (a) no significant change in the financial or trading position of either the Group or the Bank since 30 June 2014 and (b) no material adverse change in the financial position or prospects of either the Group or the Bank since 31 December 2013.

Interests of Natural and Legal Persons Involved in the Issue

So far as the Bank is aware, no natural or legal person involved in the issue of the Notes has an interest, including a conflicting interest, that is material to the issue of the Notes.

Independent Auditors

The BRSA Financial Statements as of and for the years ended 31 December 2011, 2012 and 2013 have been audited in accordance with the "Regulation Regarding the Authorisation and Activities of Institutions that will perform Independent Audit at Banks" published in the Official Gazette no: 26333 on 1 November 2006 and the International Standards on Auditing by KPMG. The IFRS Financial Statements as of and for the years ended 31 December 2012 and 2013 incorporated by reference herein have been audited in accordance with International Standards on Auditing by KPMG.

The BRSA Interim Financial Statements and IFRS Financial Statements as of and for the six month periods ended 30 June 2013 and 2014 have been reviewed by KPMG in accordance with such regulation and standards. With respect to such interim financial statements, KPMG has reported that they applied limited procedures in accordance with professional standards for a review of such information; *however*, their separate reports attached to such financial statements state that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

KPMG, which is located at Kavacık Rüzgarlı Bahçe Mah. Kavak Sok. No 29, 34805 Beykoz, İstanbul, Turkey, is an independent certified public accountant in Turkey and is authorised by the BRSA to conduct independent audits of banks in Turkey.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) that may have, or have had, during the 12 months prior to the date of this Prospectus, a significant effect on the Group's financial position or profitability.

Documents

The Bank produces audited consolidated and unconsolidated annual and unaudited consolidated and unconsolidated quarterly and semi-annual interim financial statements. The BRSA Financial Statements are originally produced in Turkish and translated into English. Copies of the latest audited annual and unaudited semi-annual interim BRSA and IFRS financial statements of the Bank (in English) delivered by the Bank pursuant to Condition 5 may be obtained, and copies of the Bank's articles of association (with a certified English translation thereof) and its audited financial statements as of and for the years ended 31 December 2011, 2012 and 2013 and the six month periods ended 30 June 2013 and 2014, and copies of the transaction documents referred to herein (including the forms of the Notes) will be available for inspection, for so long as the Notes remain outstanding, at the offices of the Bank and the Fiscal Agent.

Copies of this Prospectus, the constitutional documents of the Bank, the Group's BRSA and IFRS financial statements for the latest two years and (after the Issue Date) the Deed of Covenant and the Agency Agreement will be available in physical form for inspection, for so long as the Notes remain outstanding, at the Bank's headquarters at Meclisi Mebusan Cad. No 81 Fındıklı 34427 İstanbul, Turkey, with such financial statements also being available on the Bank's website at http://tskb.com/Investor_Relations/cift_sira_zip.aspx?SectionID=I1p8FONusaHVbdUYvjmcUw%3d%3d&ContentId=BxeukhIxhs%2f%2bVPE2nbOZlQ%3d%3d (with respect to the Group's consolidated BRSA financial statements), http://tskb.com/Investor_Relations/cift_sira_pdf.aspx?SectionID=LTl8zimGSs8xRPnP5eD6uA%3d%3d&ContentId=9YiV0DbwK2LxX91k1G%2b8eA%3d%3d (with respect to the Bank-only BRSA financial statements) and http://tskb.com/Investor_Relations/cift_sira_pdf.aspx?SectionID=7QRilUW91tTCJT8j%2fsLCRA%3d%3d&ContentId=Zx4tazSCf2%2bXObSSHFUY7g%3d%3d (with respect to the Group's consolidated IFRS financial statements) (such website is not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus). The telephone number for the Bank's headquarters is +90-212-334-5050.

Material Contracts

Except as disclosed in this Prospectus under "Business of the Group," the Bank has not entered into any material contract outside the ordinary course of its business that could result in the Bank being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

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OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND BRSA ACCOUNTING PRINCIPLES

The financial statements and financial information included in this Prospectus have been prepared in accordance with Turkish Accounting Standards (*i.e.*, TAS), Turkish Financial Reporting Standards (*i.e.*, TFRS) and the statements, communiqués and guidance published by the BRSA on accounting and financial reporting principles (*i.e.*, the BRSA Principles). Although the TFRS is almost an exact translation of IFRS, the BRSA Principles, statements, communiqués and guidance differ from IFRS in some instances. Such differences primarily relate to presentation of financial statements, disclosure requirements and accounting policies. The following paragraphs summarise major areas in which the BRSA Principles and IFRS differ from each other.

Consolidation

Consolidation principles under the BRSA Principles and IFRS are based upon the concept of the power to control in determining whether a parent/subsidiary relationship exists and that consolidation is appropriate. Control is typically exhibited where an entity has the majority of the voting rights. Under the BRSA Principles, only subsidiaries and associates operating in the financial services sector are required to be consolidated with a bank; the rest are carried at cost or at fair value. IFRS does not make such a sectoral distinction in terms of consolidation.

Allowance for Loan Losses

Under the BRSA Principles, specific and general reserves for possible loan losses are provided for in accordance with the Regulation on Provisions and Classification of Loans and Receivables issued by the BRSA. All loans are grouped into five categories mainly depending upon their past due status and creditworthiness of the borrower. The BRSA Principles have prescribed certain minimum provisioning rates for groups comprising non-performing loans after taking into account collateral (specific provision) and a separate rate for groups comprising performing loans (general provision - the general provision rate is specified by BRSA and applied consistently across the Turkish banking sector).

The Bank calculates and allocates specific provisions in accordance with the minimum provision rates required by the relevant regulations. Such legal requirements impose minimum provisions depending upon the category of the non-performing loan, including special provisions in the amounts of at least 20%, 50% and 100%, respectively, being required to be set aside for loans and receivables in Groups III, IV and V (see "Turkish Regulatory Environment – Loan Loss Reserves"). Under IFRS, for loans that have been identified as impaired, the amount of the impairment loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate. IFRS requires a form of individual assessment for loans that are individually significant and a collective assessment for loans that form part of a group of loans with similar credit characteristics.

Deferred Tax

In accordance with IFRS, deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. On the other hand, under the BRSA Principles, it is not permitted to recognise deferred tax on a general provision allocated based upon BRSA rules although it constitutes a temporary difference based upon IAS 12 Income Taxes. Besides, under IFRS, the deferred tax base is required to be calculated for the difference between allowances for loan losses calculated based upon the BRSA Principles and IFRS.

Presentation of Financial Statements

Although presentation of the financial statements under both the BRSA Principles and IFRS are similar to each other, there are still differences (*e.g.*, IFRS 7). BRSA financial statements are presented under a special format determined by the BRSA. Similarly, both cash flow and comprehensive income statements are presented using this specified format.

There are other similar differences in the accounting policies and disclosure requirements applied to subsidiaries and associates that are subject to consolidation. These differences vary based upon the sector that the related associate or subsidiary operates in, especially factoring and leasing services, which are subject to specific BRSA policies/requirements.

APPENDIX B

BRSA FINANCIAL STATEMENTS FOR THE GROUP FOR THE FISCAL YEARS ENDED 31 DECEMBER 2012 AND 2013 AND THE SIX MONTHS ENDED 30 JUNE 2014

Following are: (a) the BRSA consolidated financial statements of the Group for the six months ended 30 June 2014, together with the review report thereon, and (b) the BRSA consolidated financial statements of the Group and notes thereto for the fiscal years ended 31 December 2012 and 2013, together with the audit or review reports thereon. The BRSA consolidated financial statements of the Group and notes thereto for the fiscal year ended 31 December 2011 are incorporated into the corresponding BRSA Financial Statements for the year ended 31 December 2012.

APPENDIX B1

UNAUDITED BRSA INTERIM FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014 (INCLUDING COMPARATIVE 2013 INFORMATION)

KPMG

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As of and for the Six-Month Period Ended 30 June 2014
(Convenience Translation of Consolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

4 August 2014

This report contains "Independent Auditors' Report" comprising 1 pages and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 93 pages.

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

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

Convenience Translation of the Independent Auditors' Review Report Originally Prepared and Issued in Turkish

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

We have reviewed the consolidated balance sheet of Türkiye Sınai Kalkınma Bankası Anonim Şirketi ("the Bank") and its subsidiaries (collectively "the Group") as of 30 June 2014 and the related consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the six-month interim period then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility as independent auditors is to issue a review report on these consolidated financial statements based on our review.

We conducted our review in accordance with the regulations related with the "Accounting and Recording Rules" and "Independent Auditing Standards" of the (Turkish) Banking Law No 5411. These regulations require that we plan and perform the review to obtain limited assurance as to whether the consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of the personnel of the Bank and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as of 30 June 2014 and the consolidated results of its operations and its consolidated cash flows for the six-month interim period then ended in accordance with the prevailing accounting principles and standards set out as per the Article No: 37 and Article No: 38 of the Banking Act No: 5411 and other regulations, explanations and circulars on accounting and financial reporting principles announced by BRSA.

Istanbul,
4 August 2014

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik
Anonim Şirketi

Orhan Akova
Partner

Additional paragraph for convenience translation to English:

As explained in Section 3 Note I, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

TSKB

THE CONSOLIDATED FINANCIAL REPORT OF
TÜRKİYE SINAİ KALKINMA BANKASI A.Ş.
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014

The consolidated financial report for the six months includes the following sections in accordance with "Communiqué on the Financial Statements and Related Explanation and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency:

- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON THE CORRESPONDING ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE OF THE GROUP WHICH IS UNDER CONSOLIDATION
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S LIMITED REVIEW REPORT

The subsidiaries, associates and joint ventures, whose financial statements are consolidated within the framework of the reporting package, are as follows:

Subsidiaries	Associates
Yatırım Finansman Menkul Değerler A.Ş.	İş Finansal Kiralama A.Ş.
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.
	İş Faktoring A.Ş.

The accompanying consolidated financial statements and the explanatory footnotes and disclosures for the six months, unless otherwise indicated, are prepared in **thousands of Turkish Lira ("TRY")**, in accordance with the Communiqué on Bank's Accounting Practice and Maintaining Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, related communiqués and the Bank's records, and have been independently reviewed and presented as attached.

4 August 2014

Adnan BALİ	Özcan TÜRKAKIN	Ömer ERYILMAZ	Mustafa GÖKTAŞ
Chairman of Board of Directors	Member of Board of Directors and General Manager	Executive Vice President In Charge of Financial Reporting	Head of Financial Control Department

Kemal Serdar DİŞLİ	Murat BİLGİÇ
Member of Audit Committee	Member of Audit Committee

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname / Title : Mustafa Göktaş / Head of Financial Control Department
Telephone Number : (0212) 334 51 92
E-Mail Address : goktasm@tskb.com.tr

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Independent Auditors' Review Report

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

SECTION ONE

GENERAL INFORMATION

I. The Parent Bank's incorporation date, beginning statue, changes in the existing statue

Türkiye Sınai Kalkınma Bankası A.Ş. ("The Parent Bank") was established in accordance with the decision of President of the Republic of Turkey numbered 3/11203 on 12 May 1950. This decision was declared by T.R. Office of Prime Ministry Procedures Directorate Decision Management on 12 May 1950.

According to the classification set out in the Banking Law No: 5411, the statute of the Parent Bank is "Development and Investment Bank". The Parent Bank does not have the authority of "Accepting Deposit". Since the establishment date of the Parent Bank, there is no change in its "Development and Investment Bank" status.

II. Explanations regarding the Parent Bank's shareholding structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current year, if any and explanations on the controlling group of the Parent Bank

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power of the Parent Bank directly or indirectly, alone or together with other shareholders. Shareholders of the Parent Bank are as follows:

Current Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	750.002	50,00	750.002	-
T. Vakıflar Bankası T.A.O.	125.662	8,38	125.662	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	624.336	41,62	624.336	-
Total	**1.500.000**	**100,00**	**1.500.000**	**-**

Prior Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	650.001	50,00	650.001	-
T. Vakıflar Bankası T.A.O.	108.907	8,38	108.907	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	541.092	41,62	541.092	-
Total	**1.300.000**	**100,00**	**1.300.000**	**-**

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

III. Explanations regarding the chairman and the members of board of directors, audit committee, general manager and assistant general managers and their shares in the Parent Bank

The Chairman and The Members of Board of Directors (5):

Name Surname	Title (1)	Date of Appointment	Academic Background	Experience in Banking and Management
Adnan Bali	Chairman of the Board of Directors	15 April 2011	Undergraduate	29
Kemal Serdar Dişli (2)	Vice Chairman of the Board of Directors and Audit Committee	25 May 2007	Undergraduate	27
Özcan Türkakın	Member of the Board of Directors and General Manager	31 January 2013	Postgraduate	31
Durmuş Yılmaz	Member of the Board of Directors	26 March 2012	Postgraduate	35
Ertan Burhanettin Kantar	Member of the Board of Directors	23 March 2005	Undergraduate	26
Murat Bilgiç (2)	Member of the Board of Directors and Audit Committee	23 March 2005	Postgraduate	24
Ebru Ozşuca (3)	Member of the Board of Directors	17 April 2014	Postgraduate	21
Kamil Yılmaz (4)	Member of the Board of Directors	25 March 2014	Doctorate	23
Uygar Şafak Öğün	Member of the Board of Directors	2 April 2010	Postgraduate	19
Halil Aydoğan	Member of the Board of Directors	16 December 2013	Undergraduate	37

General Manager and Vice Presidents:

Name Surname	Title / Area of Responsibility	Date of Appointment	Academic Background	Experience in Banking and Management
Özcan Türkakın	General Manager	31 January 2013	Postgraduate	31
A.Orhan Beşkök	Senior Vice President - Technical Services and Financial Institutions	24 January 2002	Postgraduate	32
Burak Akgüç	Vice President – Corporate Marketing and Project Finance	29 December 2004	Undergraduate	25
Ömer Eryılmaz	Vice President – Financial Control, Budget Planning and Investor Relations	27 January 2006	Undergraduate	28
Çiğdem İçel	Vice President – Treasury and Human Resources	27 January 2006	Undergraduate	25
Ufuk Bala Yücel	Vice President - Loans	25 December 2007	Undergraduate	28
B. Gökhan Çanakpınar	Vice President – Information Technology and Operation	27 December 2011	Undergraduate	24
Ece Börü	Vice President– Enterprise Architecture	28 November 2013	Undergraduate	25
Hakan Aygen	Vice President – Corporate Finance and Economic Research	28 November 2013	Doctorate	25

(1) The shares of above directors in the Bank are symbolic.
(2) According to the Communiqué of CMB Serial: IV No:63 members of the Audit Committee are regarded as Independent Members of the Board of Directors Kemal Serdar Dişli was elected to Vice Chairman in the meeting of the Bank on 27 March 2014.
(3) Mustafa Baran Tuncer, the independent member of the Board of Directors, has resigned from his duty and in the Board of Directors meeting per decree on 17 April 2014, Ebru Özşuca was elected to vacant position in accordance with article no.363 of Turkish Commercial Code.
(4) Kamil Yılmaz was elected to Board Member because of resignation of Mehmet Şencan in accordance with article no.363 of the Turkish Commercial Code and the Bank's Articles of Association and in addition Kamil Yılmaz was elected as an Independent Member within the context of the Communiqué on Determination and Implementation of Corporate Governance Principles of CMB in the General Meeting held on 27 March 2014.
(5) Feridun Bilgin, the member of the Board of Directors, has resigned from his duty on 2 May 2014.

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Akis Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as auditor between the years 2013-2015 on the General Meeting held on 27 March 2014.

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

IV. Information about the persons and institutions that have qualified shares in the Parent Bank

T. İş Bankası A.Ş. (İş Bank) Group owns the qualified shares that control the Parent Bank's capital directly or indirectly.

Current Period Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	750.002	50,00	750.002	-
T. Vakıflar Bankası T.A.O.	125.662	8,38	125.662	-
Under Custody at Merkezi Kayıt Kuruluşu Other Institutions and Individuals	624.336	41,62	624.336	-
Total	**1.500.000**	**100,00**	**1.500.000**	**-**

Prior Period Name Surname/Commercial Title	Share Capital	Shareholding Rate (%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	650.001	50,00	650.001	-
T. Vakıflar Bankası T.A.O.	108.907	8,38	108.907	-
Under Custody at Merkezi Kayıt Kuruluşu Other Institutions and Individuals	541.092	41,62	541.092	-
Total	**1.300.000**	**100,00**	**1.300.000**	**-**

V. Summary on the Parent Bank's functions and areas of activity

Türkiye Sınai Kalkınma Bankası A.Ş. is the first private development and investment bank which was established by the Council of Ministers resolution number of 3/11203 established in 1950 with the support of World Bank, T.R. Government, T.R. Central Bank and commercial banks. As per the articles of association published in the Official Gazette on 2 June 1950, the aim of the Parent Bank is to support all private sector investments but mostly industrial sectors, to help domestic and foreign capital owners to finance the new firms and to help the improvement of Turkish capital markets. The Parent Bank is succeeding its aims by financing, consulting, giving technical support and financial intermediary services. The Parent Bank, which operates as a non-deposit accepting bank, played a major role on manufacturing and finance sectors in every phase of the economic development of Turkey. The Parent Bank 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, the Parent Bank also continues to offer solutions with respect to the newest needs and client demands.

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

VI. Differences between the communiqué on preparation of consolidated financial statements of banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiaries and associates, TSKB Gayrimenkul Değerleme A.Ş., TSKB Gayrimenkul Danışmanlık A.Ş., Terme Metal Sanayi ve Ticaret A.Ş., Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. and Adana Hotel Project are not consolidated since they are not in scope of financial institutions according to related communiqué.

Türkiye Sınai Kalkınma Bankası A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340.

Yatırım Finansman Menkul Değerler A.Ş. :

Yatırım Finansman Menkul Değerler A.Ş. ("YFAŞ") was established in 15 October 1976. The Company's purpose is to perform capital market operations specified in the Company's main contract in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95,78%. The Company's headquarters is located at Istanbul/Türkiye.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB GYO") was established on 3 February 2006. Core business of the company is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 59,00%. The Company's headquarters is located at Istanbul/Türkiye.

İş Finansal Kiralama A.Ş. :

İş Finansal Kiralama A.Ş. ("İş Finansal Kiralama") was established on 8 February 1988. The company has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No 6361. The purpose of the company is performing domestic and foreign financial leasing activities and all kind of rental (leasing) transactions within the framework of legislation The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 28,56% and the share of Türkiye İş Bankası A.Ş. is 27,79%. The Company's headquarters is located at Istanbul/Türkiye.

İş Faktoring A.Ş. :

İş Faktoring A.Ş. ("İş Faktoring"), was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş with 78,23% shareholding. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%. Company's headquarters is located at Istanbul/Türkiye.

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

VI. Differences between the communiqué on preparation of consolidated financial statements of banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods (continued)

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş ("İş Girişim") started its venture capital operations by the decision of Capital Market Board dated 5 September 2000. The principal activity of the Company is to perform long-term investments to venture capital companies mainly established or to be established in Turkey, have development potential and require resource. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 16,67% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29,00%. The Company's headquarters is located at Istanbul/Türkiye.

VII. The existing or potential, actual or legal obstacle on the transfer of shareholder's equity between the Parent Bank and its subsidiaries or the reimbursement of liabilities

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Parent Bank and its subsidiaries. The Parent Bank charge or pay cost of the services according to the service agreements done between the Parent Bank and its subsidiaries. Dividend distribution from shareholders' equity is made according to related legal regulations.

Written policies of the Parent Bank related to compliance to publicly disclosed obligations of the Parent Bank and assessment of accuracy, frequency and compliance of mentioned disclosures

The Parent Bank Disclosure Policy approved by the meeting of the Board of Directors has entered into force on 28 February 2014. Compliance to public disclosure obligations, frequency of public disclosures and tools and methods used for public disclosures are explained in the disclosure policy of the Parent Bank accessible from the the Parent B corporate website.

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

			Reviewed Current Period 30 June 2014			Audited Prior Period 31 December 2013		
	ASSETS	**Note Ref.**	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	**CASH AND BALANCES WITH THE CENTRAL BANK**	(1)	**9.121**	**398.626**	**407.747**	**42.176**	**302.864**	**345.040**
II.	**FINANCIAL ASSETS AT F.V. THROUGH PROFIT AND LOSS (Net)**	(2)	**40.888**	**32.082**	**72.970**	**26.216**	**34.032**	**60.248**
2.1	Trading financial assets		40.888	32.082	72.970	26.216	34.032	60.248
2.1.1	Public sector debt securities		16.190	-	16.190	8.717	-	8.717
2.1.2	Share certificates		709	-	709	988	-	988
2.1.3	Derivative financial assets held for trading		13.752	32.082	45.834	6.655	34.032	40.687
2.1.4	Other marketable securities		10.237	-	10.237	9.856	-	9.856
2.2	Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1	Public sector debt securities		-	-	-	-	-	-
2.2.2	Share certificates		-	-	-	-	-	-
2.2.3	Other marketable securities		-	-	-	-	-	-
2.2.4	Loans		-	-	-	-	-	-
III.	**BANKS**	(3)	**287.144**	**153.999**	**441.143**	**9.971**	**411.333**	**421.304**
IV.	**MONEY MARKET PLACEMENTS**		**384.414**	**-**	**384.414**	**50**	**-**	**50**
4.1	Interbank money market placements		-	-	-	-	-	-
4.2	Istanbul Stock Exchange money market placements		384.410	-	384.410	50	-	50
4.3	Receivables from reverse repurchase agreements		4	-	4	-	-	-
V.	**FINANCIAL ASSETS AVAILABLE FOR SALE (Net)**	(4)	**2.629.899**	**369.691**	**2.999.590**	**2.594.992**	**378.066**	**2.973.058**
5.1	Share certificates		26.653	2.957	29.610	48.072	2.957	51.029
5.2	Public sector debt securities		2.122.607	339.904	2.462.511	1.996.493	332.811	2.329.304
5.3	Other marketable securities		480.639	26.830	507.469	550.427	42.298	592.725
VI.	**LOANS**	(5)	**2.330.539**	**7.208.962**	**9.539.501**	**2.195.193**	**6.853.905**	**9.049.098**
6.1	Loans		2.330.539	7.208.962	9.539.501	2.195.193	6.853.905	9.049.098
6.1.1	Loans to risk group of the Bank		95.169	143.116	238.285	119.048	170.979	290.027
6.1.2	Public sector debt securities		-	-	-	-	-	-
6.1.3	Other		2.235.370	7.065.846	9.301.216	2.076.145	6.682.926	8.759.071
6.2	Non performing loans		13.636	3.458	17.094	16.913	20.473	37.386
6.3	Specific provisions (-)		(13.636)	(3.458)	(17.094)	(16.913)	(20.473)	(37.386)
VII.	**FACTORING RECEIVABLES**		**-**	**-**	**-**	**-**	**-**	**-**
VIII.	**HELD TO MATURITY INVESTMENTS (Net)**	(6)	**-**	**-**	**-**	**-**	**-**	**-**
8.1	Public sector debt securities		-	-	-	-	-	-
8.2	Other marketable securities		-	-	-	-	-	-
IX.	**INVESTMENTS IN ASSOCIATES (Net)**	(7)	**247.888**	**-**	**247.888**	**236.634**	**-**	**236.634**
9.1	Accounted for under equity method		246.533	-	246.533	234.988	-	234.988
9.2	Unconsolidated associates		1.355	-	1.355	1.646		1.646
9.2.1	Financial investments		-	-	-	-	-	-
9.2.2	Non-financial investments		1.355	-	1.355	1.646	-	1.646
X.	**INVESTMENTS IN SUBSIDIARIES (Net)**	(8)	**847**	**-**	**847**	**847**	**-**	**847**
10.1	Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2	Unconsolidated non-financial subsidiaries		847	-	847	847	-	847
XI.	**ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)**	(9)	**10**	**-**	**10**	**10**	**-**	**10**
11.1	Consolidated under equity method		-	-	-	-	-	-
11.2	Unconsolidated		10	-	10	10	-	10
11.2.1	Financial subsidiaries		-	-	-	-	-	-
11.2.2	Non-financial subsidiaries		10	-	10	10	-	10
XII.	**LEASE RECEIVABLES (Net)**	(10)	**-**	**1.393**	**1.393**	**-**	**4.518**	**4.518**
12.1	Finance lease receivables		-	1.492	1.492	-	4.573	4.573
12.2	Operating lease receivables		-	-	-	-	-	-
12.3	Other		-	-	-	-	-	-
12.4	Unearned income (-)		-	(99)	(99)	-	(55)	(55)
XIII.	**DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES**	(11)	**-**	**-**	**-**	**-**	**-**	**-**
13.1	Fair value hedge		-	-	-	-	-	-
13.2	Cash flow hedge		-	-	-	-	-	-
13.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
XIV.	**TANGIBLE ASSETS (Net)**	(12)	**26.177**	**-**	**26.177**	**24.397**	**-**	**24.397**
XV.	**INTANGIBLE ASSETS (Net)**	(13)	**2.192**	**-**	**2.192**	**2.249**	**-**	**2.249**
15.1	Goodwill		1.005	-	1.005	1.005	-	1.005
15.2	Other		1.187	-	1.187	1.244	-	1.244
XVI.	**INVESTMENT PROPERTY (Net)**	(14)	**229.842**	**-**	**229.842**	**222.295**	**-**	**222.295**
XVII.	**TAX ASSET**	(15)	**9.110**	**-**	**9.110**	**18.896**	**-**	**18.896**
17.1	Current tax asset		1.086	-	1.086	-	-	-
17.2	Deferred tax asset		8.024	-	8.024	18.896	-	18.896
XVIII.	**ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)**	(16)	-	-	**-**	-	-	**-**
18.1	Assets held for sale		-	-	**-**	-	-	**-**
18.2	Assets of discontinued operations		-	-	**-**	-	-	-
XIX.	**OTHER ASSETS**	(17)	**37.376**	**32.644**	**70.020**	**34.386**	**46.186**	**80.572**
	TOTAL ASSETS		**6.235.447**	**8.197.397**	**14.432.844**	**5.408.312**	**8.030.904**	**13.439.216**

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

			Reviewed Current Period 30 June 2014			Audited Prior Period 31 December 2013		
	LIABILITIES	**Note Ref**	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	**DEPOSITS**	(1)	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Deposits from Risk Group of the Bank		-	-	-	-	-	-
1.2	Other		-	-	-	-	-	-
II.	**DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING**	(2)	**6.208**	**31.467**	**37.675**	**7.277**	**50.580**	**57.857**
III.	**FUNDS BORROWED**	(3)	**75.526**	**9.396.715**	**9.472.241**	**74.275**	**9.050.762**	**9.125.037**
IV.	**MONEY MARKET BALANCES**		**1.991.249**	**218.230**	**2.209.479**	**1.609.973**	**246.231**	**1.856.204**
4.1	Interbank money market takings		-	-	-	-	-	-
4.2	Istanbul Stock Exchange money market takings		249.552	-	249.552	251.313	-	251.313
4.3	Funds provided under repurchase agreements		1.741.697	218.230	1.959.927	1.358.660	246.231	1.604.891
V.	**DEBT SECURITIES ISSUED (Net)**		**-**	**-**	**-**	**-**	**-**	**-**
5.1	Bills		-	-	-	-	-	-
5.2	Asset backed securities		-	-	-	-	-	-
5.3	Bonds		-	-	-	-	-	-
VI.	**FUNDS**		**561**	**37.079**	**37.640**	**946**	**5.008**	**5.954**
6.1	Borrower funds		561	37.079	37.640	946	5.008	5.954
6.2	Others		-	-	-	-	-	-
VII.	**MISCELLANEOUS PAYABLES**		**73.669**	**20.425**	**94.094**	**77.558**	**12.211**	**89.769**
VIII.	**OTHER LIABILITIES**	(4)	-	-	**-**	-	-	**-**
IX.	**FACTORING PAYABLES**		-	-	**-**	-	-	**-**
X.	**LEASE PAYABLES**	(5)	-	-	-	-	-	-
10.1	Finance lease payables		-	-	-	-	-	-
10.2	Operating lease payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred finance lease expenses (-)		-	-	-	-	-	-
XI.	**DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES**	(6)	-	-	-	-	-	-
11.1	Fair value hedge		-	-	-	-	-	-
11.2	Cash flow hedge		-	-	-	-	-	-
11.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
XII.	**PROVISIONS**	(7)	**199.376**	**-**	**199.376**	**155.577**	**1.865**	**157.442**
12.1	General loan loss provisions		103.165	-	103.165	96.583	-	96.583
12.2	Restructuring provisions		-	-	-	-	-	-
12.3	Reserve for employee benefits		10.021	-	10.021	8.676	-	8.676
12.4	Insurance technical reserves (Net)		-	-	-	-	-	-
12.5	Other provisions		86.190	-	86.190	50.318	1.865	52.183
XIII.	**TAX LIABILITY**	(8)	**44.117**	**-**	**44.117**	**22.660**	**-**	**22.660**
13.1	Current tax liability		44.117	-	44.117	22.660	-	22.660
13.2	Deferred tax liability		-	-	-	-	-	-
XIV.	**PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**	(9)	**-**	**-**	**-**	**-**	**-**	**-**
14.1	Held for sale		-	-	-	-	-	-
14.2	Discontinued operations		-	-	-	-	-	-
XV.	**SUBORDINATED LOANS**	(10)	**-**	**105.859**	**105.859**	**-**	**106.759**	**106.759**
XVI.	**SHAREHOLDERS' EQUITY**		**2.190.696**	**41.667**	**2.232.363**	**2.001.886**	**15.648**	**2.017.534**
16.1	Paid-in capital	(11)	1.500.000	-	1.500.000	1.300.000	-	1.300.000
16.2	Capital reserves		48.857	41.667	90.524	(1.925)	15.648	13.723
16.2.1	Share premium		406	-	406	388	-	388
16.2.2	Share cancellation profits		-	-	-	-	-	-
16.2.3	Marketable securities value increase fund	(11)	38.757	41.667	80.424	(11.607)	15.648	4.041
16.2.4	Tangible assets revaluation differences		9.320	-	9.320	8.920	-	8.920
16.2.5	Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6	Investment property revaluation differences		-	-	-	-	-	-
16.2.7	Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)		-	-	-	-	-	-
16.2.8	Hedging reserves (Effective portion)		-	-	-	-	-	-
16.2.9	Revaluation surplus on assets held for sale and discontinued operations		-	-	-	-	-	-
16.2.10	Other capital reserves		374	-	374	374	-	374
16.3	Profit reserves		315.909	-	315.909	262.400	-	262.400
16.3.1	Legal reserves		175.765	-	175.765	158.444	-	158.444
16.3.2	Statutory reserves		75.641	-	75.641	75.641	-	75.641
16.3.3	Extraordinary reserves		61.181	-	61.181	24.993	-	24.993
16.3.4	Other profit reserves		3.322	-	3.322	3.322	-	3.322
16.4	Profit or loss		255.771	-	255.771	365.889	-	365.889
16.4.1	Prior years' profit/loss		42.412	-	42.412	61.999	-	61.999
16.4.2	Current year profit/loss		213.359	-	213.359	303.890	-	303.890
16.5	Non-controlling interests		70.159	-	70.159	75.522	-	75.522
	TOTAL LIABILITIES AND EQUITY		**4.581.402**	**9.851.442**	**14.432.844**	**3.950.152**	**9.489.064**	**13.439.216**

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

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

			Reviewed Current Period 30 June 2014			Audited Prior Period 31 December 2013		
		Note Ref	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
A.	**OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)**		**2.661.477**	**7.971.637**	**10.633.114**	**2.828.429**	**7.103.261**	**9.931.690**
I.	**GUARANTEES AND COLLATERALS**	(1)	**499.230**	**939.146**	**1.438.376**	**505.921**	**947.499**	**1.453.420**
1.1	Letters of guarantee		499.230	445.778	945.008	505.921	509.466	1.015.387
1.1.1	Guarantees subject to State Tender Law		-	-	-	-	-	-
1.1.2	Guarantees given for foreign trade operations		-	-	-	-	-	-
1.1.3	Other letters of guarantee		499.230	445.778	945.008	505.921	509.466	1.015.387
1.2	Bank acceptances		-	-	-	-	-	-
1.2.1	Import letters of acceptance		-	-	-	-	-	-
1.2.2	Other bank acceptances		-	-	-	-	-	-
1.3	Letters of credit		-	493.368	493.368	-	438.033	438.033
1.3.1	Documentary letters of credit		-	493.368	493.368	-	438.033	438.033
1.3.2	Other letters of credit		-	-	-	-	-	-
1.4	Prefinancing given as guarantee		-	-	-	-	-	-
1.5	Endorsements		-	-	-	-	-	-
1.5.1	Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2	Other endorsements		-	-	-	-	-	-
1.6	Securities issue purchase guarantees		-	-	-	-	-	-
1.7	Factoring guarantees		-	-	-	-	-	-
1.8	Other guarantees		-	-	-	-	-	-
1.9	Other collaterals		-	-	-	-	-	-
II.	**COMMITMENTS**	(1)	**1.067.358**	**1.862.330**	**2.929.688**	**1.440.682**	**1.874.009**	**3.314.691**
2.1	Irrevocable commitments		672.886	191.690	864.576	1.097.288	363.653	1.460.941
2.1.1	Forward asset purchase and sales commitments		106.900	169.409	276.309	213.594	297.751	511.345
2.1.2	Forward deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3	Share capital commitment to associates and subsidiaries		-	3.295	3.295	-	-	-
2.1.4	Loan granting commitments		-	4.765	4.765	-	4.805	4.805
2.1.5	Securities underwriting commitments		-	-	-	-	-	-
2.1.6	Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7	Payment commitment for checks		-	-	-	-	-	-
2.1.8	Tax and fund liabilities from export commitments		-	-	-	-	-	-
2.1.9	Commitments for credit card expenditure limits		-	-	-	-	-	-
2.1.10	Commitments for promotions related with credit cards and banking activities		-	-	-	-	-	-
2.1.11	Receivables from short sale commitments		-	-	-	-	-	-
2.1.12	Payables for short sale commitments		-	-	-	-	-	-
2.1.13	Other irrevocable commitments		565.986	14.221	580.207	883.694	61.097	944.791
2.2	Revocable commitments		394.472	1.670.640	2.065.112	343.394	1.510.356	1.853.750
2.2.1	Revocable loan granting commitments		394.472	1.670.640	2.065.112	343.394	1.510.356	1.853.750
2.2.2	Other revocable commitments		-	-	-	-	-	-
III.	**DERIVATIVE FINANCIAL INSTRUMENTS**	(2)	**1.094.889**	**5.170.161**	**6.265.050**	**881.826**	**4.281.753**	**5.163.579**
3.1	Derivative financial instruments for hedging purposes		-	-	-	-	-	-
3.1.1	Fair value hedge		-	-	-	-	-	-
3.1.2	Cash flow hedge		-	-	-	-	-	-
3.1.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2	Held for trading transactions		1.094.889	5.170.161	6.265.050	881.826	4.281.753	5.163.579
3.2.1	Forward foreign currency buy/sell transactions		34.080	53.825	87.905	232.750	364.554	597.304
3.2.1.1	Forward foreign currency transactions-buy		17.204	26.841	44.045	213.289	81.192	294.481
3.2.1.2	Forward foreign currency transactions-sell		16.876	26.984	43.860	19.461	283.362	302.823
3.2.2	Swap transactions related to f.c. and interest rates		531.145	4.485.319	5.016.464	278.088	3.483.427	3.761.515
3.2.2.1	Foreign currency swaps-buy		227.792	981.681	1.209.473	195.646	427.251	622.897
3.2.2.2	Foreign currency swaps-sell		254.969	874.634	1.129.603	33.050	595.548	628.598
3.2.2.3	Interest rate swaps-buy		24.192	1.314.502	1.338.694	24.696	1.230.314	1.255.010
3.2.2.4	Interest rate swaps-sell		24.192	1.314.502	1.338.694	24.696	1.230.314	1.255.010
3.2.3	Foreign currency, interest rate and securities options		529.664	556.254	1.085.918	370.988	433.772	804.760
3.2.3.1	Foreign currency options-buy		273.247	267.860	541.107	187.344	205.442	392.786
3.2.3.2	Foreign currency options-sell		256.417	280.286	536.703	183.644	209.840	393.484
3.2.3.3	Interest rate options-buy		-	4.054	4.054	-	9.245	9.245
3.2.3.4	Interest rate options-sell		-	4.054	4.054	-	9.245	9.245
3.2.3.5	Securities options-buy		-	-	-	-	-	-
3.2.3.6	Securities options-sell		-	-	-	-	-	-
3.2.4	Foreign currency futures		-	-	-	-	-	-
3.2.4.1	Foreign currency futures-buy		-	-	-	-	-	-
3.2.4.2	Foreign currency futures-sell		-	-	-	-	-	-
3.2.5	Interest rate futures		-	-	-	-	-	-
3.2.5.1	Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2	Interest rate futures-sell		-	-	-	-	-	-
3.2.6	Other		-	74.763	74.763	-	-	-
B.	**CUSTODY AND PLEDGED SECURITIES (IV+V+VI)**		**25.414.527**	**92.158.461**	**117.572.988**	**26.254.023**	**94.633.754**	**120.887.777**
IV.	**ITEMS HELD IN CUSTODY**		**4.396.961**	**254.421**	**4.651.382**	**4.358.031**	**281.543**	**4.639.574**
4.1	Customers' securities held		-	-	-	-	-	-
4.2	Investment securities held in custody		2.746.181	254.421	3.000.602	2.929.287	281.543	3.210.830
4.3	Checks received for collection		3.150	-	3.150	-	-	-
4.4	Commercial notes received for collection		-	-	-	-	-	-
4.5	Other assets received for collection		-	-	-	-	-	-
4.6	Assets received for public offering		-	-	-	-	-	-
4.7	Other items under custody		-	-	-	517	-	517
4.8	Custodians		1.647.630	-	1.647.630	1.428.227	-	1.428.227
V.	**PLEDGED ITEMS**		**11.002.585**	**55.032.514**	**66.035.099**	**11.540.554**	**57.554.012**	**69.094.566**
5.1	Marketable securities		392.936	3.148.677	3.541.613	392.936	2.677.590	3.070.526
5.2	Guarantee notes		81.496	1.564.391	1.645.887	86.094	1.588.476	1.674.570
5.3	Commodity		-	-	-	-	-	-
5.4	Warranty		-	-	-	-	-	-
5.5	Real estates		414.357	20.436.654	20.851.011	416.410	20.897.816	21.314.226
5.6	Other pledged items		10.113.796	29.882.792	39.996.588	10.645.114	32.390.130	43.035.244
5.7	Pledged items-depository		-	-	-	-	-	-
VI.	**ACCEPTED BILLS OF EXCHANGE AND COLLATERALS**		**10.014.981**	**36.871.526**	**46.886.507**	**10.355.438**	**36.798.199**	**47.153.637**
	TOTAL OFF BALANCE SHEET ITEMS (A+B)		**28.076.004**	**100.130.098**	**128.206.102**	**29.082.452**	**101.737.015**	**130.819.467**

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

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

		Note Ref.	Reviewed Current Period 1 January 2014 – 30 June 2014	Reviewed Prior Period 1 January 2013 – 30 June 2013	Reviewed Current Period 1 April 2014 – 30 June 2014	Reviewed Prior Period 1 April 2013 – 30 June 2013
I.	**INTEREST INCOME**	(1)	**399.750**	**307.035**	**203.885**	**156.795**
1.1	Interest on loans		239.200	184.636	120.779	101.136
1.2	Interest received from reserve deposits		-	-	-	-
1.3	Interest received from banks		6.805	12.299	3.569	5.098
1.4	Interest received from money market placements		7.264	3.494	6.846	2.100
1.5	Interest received from marketable securities portfolio		146.339	106.324	72.644	48.328
1.5.1	Financial assets held for trading		1.073	402	467	296
1.5.2	Financial assets at fair value through profit and loss		-	-	-	-
1.5.3	Available-for-sale financial assets		145.266	105.922	72.177	48.032
1.5.4	Investments held-to-maturity		-	-	-	-
1.6	Finance lease income		51	174	11	79
1.7	Other interest income		91	108	36	54
II.	**INTEREST EXPENSES**	(2)	**(131.673)**	**(77.196)**	**(70.711)**	**(39.445)**
2.1	Interest on deposits		-	-	-	-
2.2	Interest on funds borrowed		(54.445)	(42.869)	(28.203)	(22.563)
2.3	Interest on money market borrowings		(77.211)	(34.280)	(42.496)	(16.877)
2.4	Interest on securities issued		-	-	-	-
2.5	Other interest expense		(17)	(47)	(12)	(5)
III.	**NET INTEREST INCOME (I - II)**		**268.077**	**229.839**	**133.174**	**117.350**
IV.	**NET FEES AND COMMISSIONS INCOME**		**13.818**	**15.639**	**7.428**	**7.011**
4.1	Fees and commissions received		16.022	17.012	8.445	7.725
4.1.1	Non-cash loans		4.346	3.534	2.162	1.853
4.1.2	Other		11.676	13.478	6.283	5.872
4.2	Fees and commissions paid		(2.204)	(1.373)	(1.017)	(714)
4.2.1	Non-cash loans		(447)	(433)	(217)	(227)
4.2.2	Other		(1.757)	(940)	(800)	(487)
V.	**DIVIDEND INCOME**	(3)	**11.850**	**13.493**	**2.278**	**8.564**
VI.	**NET TRADING INCOME**	(4)	**30.110**	**(4.248)**	**25.087**	**(12.525)**
6.1	Securities trading gains/ (losses)		182	5.261	(33)	412
6.2	Derivative financial instruments gains/losses		12.251	(943)	10.414	(5.157)
6.3	Foreign exchange gains/losses (net)		17.677	(8.566)	14.706	(7.780)
VII.	**OTHER OPERATING INCOME**	(5)	**43.009**	**16.347**	**9.198**	**2.932**
VIII.	**TOTAL OPERATING INCOME (III+IV+V+VI+VII)**		**366.864**	**271.070**	**177.165**	**123.332**
IX.	**PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLE (-)**	(6)	**(52.653)**	**(19.680)**	**(11.130)**	**(8.438)**
X.	**OTHER OPERATING EXPENSES (-)**	(7)	**(64.561)**	**(53.261)**	**(32.600)**	**(26.499)**
XI.	**NET OPERATING INCOME/(LOSS) (VIII-IX-X)**		**249.650**	**198.129**	**133.435**	**88.395**
XII.	**AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER**		**-**	**-**	**-**	**-**
XIII.	**PROFIT / (LOSS) ON EQUITY METHOD**		**14.770**	**13.189**	**8.400**	**8.309**
XIV.	**GAIN / (LOSS) ON NET MONETARY POSITION**		**-**	**-**	**-**	**-**
XV.	**PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+XII+XIII+XIV)**	(8)	**264.420**	**211.318**	**141.835**	**96.704**
XVI.	**TAX PROVISION FOR CONTINUED OPERATIONS (±)**	(9)	**(50.021)**	**(37.897)**	**(26.255)**	**(17.015)**
16.1	Provision for current income taxes		(59.125)	(20.532)	(39.373)	(2.541)
16.2	Provision for deferred taxes		9.104	(17.365)	13.118	(14.474)
XVII.	**NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)**	(10)	**214.399**	**173.421**	**115.580**	**79.689**
XVIII.	**INCOME ON DISCONTINUED OPERATIONS**		-	-	-	-
18.1	Income on assets held for sale		-	-	-	-
18.2	Income on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-	-	-
18.3	Income on other discontinued operations		-	-	-	-
XIX.	**LOSS FROM DISCONTINUED OPERATIONS (-)**		-	-	-	-
19.1	Loss from assets held for sale		-	-	-	-
19.2	Loss on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-	-	-
19.3	Loss from other discontinued operations		-	-	-	-
XX.	**PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)**		**-**	**-**	**-**	**-**
XXI.	**TAX PROVISION FOR DISCONTINUED OPERATIONS(±)**		**-**	**-**	**-**	**-**
21.1	Provision for current income taxes		-	-	-	-
21.2	Provision for deferred taxes		-	-	-	-
XXII.	**NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (X**		**-**	**-**	**-**	**-**
XXIII.	**NET PROFIT/LOSS (XVII+XXII)**	(11)	**214.399**	**173.421**	**115.580**	**79.689**
23.1	Group's profit / loss		213.359	174.592	114.326	81.590
23.2	Minority shares		1.040	(1.171)	1.254	(1.901)
	Earnings / (losses) per share		0,143	0,116	0,077	0,053

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

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

	PROFIT AND LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDER'S EQUITY	Reviewed Current Period 1 January 2014– 30 June 2014	Reviewed Prior Period 1 January 2013 – 30 June 2013
I.	**ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS**	**99.768**	**(121.866)**
II.	**TANGIBLE ASSETS REVALUATION DIFFERENCES**	-	-
III.	**INTANGIBLE ASSETS REVALUATION DIFFERENCES**	-	-
IV.	**TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES**	-	-
V.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion of fair value differences)**	-	-
VI.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)**	-	-
VII.	**EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS**	-	-
VIII.	**OTHER PROFIT/LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS**	**(3.409)**	**(3.390)**
IX.	**DEFERRED TAX OF VALUATION DIFFERENCES**	**(19.976)**	**24.020**
X.	**NET PROFIT/LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)**	**76.383**	**(101.236)**
XI.	**CURRENT YEAR PROFIT/LOSS**	**214.399**	**173.421**
11.1	Net changes in fair value of securities (Recycled to Profit/Loss)	(73)	4.795
11.2	Reclassification of and recycling derivatives accounted for cash flow hedge purposes to Income Statement	-	-
11.3	Recycling hedge of net investments in foreign operations to Income Statement	-	-
11.4	Other	214.472	168.626
XII.	**TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)**	**290.782**	**72.185**

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

TÜRKİYE SINAI KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

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

	CHANGES IN SHAREHOLDER'S EQUITY	Note Ref.	Paid in Capital	Effect of Inflation on Paid in Capital	Share Premiums	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit / Loss	Prior Period Net Profit / Loss	Marketable Security Revaluation Differences	Tangible and Intangible Assets Revaluation Differences	Bonus Shares Obtained from Associates, Subs and Jointly Controlled Entities	Hedging Reserves	Revaluation Surplus on Assets Held for sale and on Disc. Operations	Shareholders' Equity Before Non-controlling Interest	Non-Controlling Interest	Total Shareholders' Equity
	Prior Period – 30 June 2013																			
I.	**Opening Balance**		**1.100.000**	**374**	**388**	**-**	**125.052**	**60.277**	**7.544**	**2.920**	**-**	**369.263**	**133.754**	**35.157**	**-**	**-**	**-**	**1.834.729**	**84.273**	**1.919.002**
II.	**Adjustments In Accordance With TAS 8**																			
2.1	Effect Of Correction Of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	Effect Of Changes In Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**New Balance (I+II)**		**1.100.000**	**374**	**388**	**-**	**125.052**	**60.277**	**7.544**	**2.920**	**-**	**369.263**	**133.754**	**35.157**	**-**	**-**	**-**	**1.834.729**	**84.273**	**1.919.002**
	Changes During The Period																			
IV.	**Increases/Decreases Related to Merger**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Marketable Security Revaluation Differences**		-	-	-	-	-	-	-	-	-	-	**(101.236)**	-	-	-	-	**(101.236)**	**(10)**	**(101.246)**
VI.	**Hedging Reserves (Effective Portion)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.1	Cash-Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	Hedge Of Net Investment In Foreign Operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Tangible Assets Revaluation Differences**		-	-	-	-	-	-	**28.379**	-	-	**(2.142)**	-	**(26.237)**	-	-	-	-	-	-
VIII.	**Intangible Assets Revaluation Differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Bonus Shares Obtained From Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Foreign Exchange Differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Disposal Of Assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Reclassification Of Assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	**Effect Of Change In Equities Of Associates On Bank's Equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Capital increase**		**200.000**	-	-	-	-	-	**(32.000)**	-	-	**(168.000)**	-	-	-	-	-	-	-	-
14.1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2	Internal sources		200.000	-	-	-	-	-	(32.000)	-	-	(168.000)	-	-	-	-	-	-	-	-
XV.	**Share Premium**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	**Effect of inflation on paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	**Other**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX.	**Period net income**		-	-	-	-	-	-	-	-	**174.592**	-	-	-	-	-	-	**174.592**	**(1.171)**	**173.421**
XX.	**Profit Distribution**		-	-	-	-	**33.392**	**15.364**	**21.070**	-	-	**(137.122)**	-	-	-	-	-	**(67.296)**	-	**(67.296)**
20.1	Dividends distributed		-	-	-	-	-	-	-	-	-	(67.296)	-	-	-	-	-	(67.296)	-	**(67.296)**
20.2	Transfers to reserves		-	-	-	-	33.392	15.364	21.070	-	-	(69.826)	-	-	-	-	-	-	-	-
20.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Closing Balance		**1.300.000**	**374**	**388**	**-**	**158.444**	**75.641**	**24.993**	**2.920**	**174.592**	**61.999**	**32.518**	**8.920**	**-**	**-**	**-**	**1.840.789**	**83.092**	**1.923.881**
	Current Period – 30 June 2014																			
I.	**Opening Balance**		**1.300.000**	**374**	**388**	**-**	**158.444**	**75.641**	**24.993**	**3.322**	**-**	**365.889**	**4.041**	**8.920**	**-**	**-**	**-**	**1.942.012**	**75.522**	**2.017.534**
II.	**Increase / Decrease related to merger**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**Marketable securities value increase fund**		-	-	-	-	-	-	-	-	-	-	**76.383**	-	-	-	-	**76.383**	**(1)**	**76.382**
IV.	**Hedging (Effective portion)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1	Cash-flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedge of net investment in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Tangible assets revaluation differences**		-	-	-	-	-	-	-	-	-	**(400)**	-	**400**	-	-	-	-	-	-
VI.	**Intangible assets revaluation differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	**Foreign exchange differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Disposal of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Reclassification of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Effect of change in equities of associates on bank's equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Capital increase**		**200.000**	-	-	-	-	-	-	-	-	**(200.000)**	-	-	-	-	-	-	-	-
12.1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Internal sources		**200.000**	-	-	-	-	-	-	-	-	**(200.000)**	-	-	-	-	-	-	-	-
XIII.	**Share issuance**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	**Effect of inflation on paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Other**		-	-	**18**	-	**2**	-	**173**	-	-	**2.838**	-	-	-	-	-	**3.031**	**(6.413)**	**(3.382)**
XVII.	**Period net income**		-	-	-	-	-	-	-	-	**213.359**	-	-	-	-	-	-	**213.359**	**1.040**	**214.399**
XVIII.	**Profit distribution**		-	-	-	-	**17.319**	-	**36.015**	-	-	**(125.915)**	-	-	-	-	-	**(72.581)**	**11**	**(72.570)**
18.1	Dividends distributed		-	-	-	-	-	-	-	-	-	(72.581)	-	-	-	-	-	(72.581)	-	(72.581)
18.2	Transfers to reserves		-	-	-	-	17.319	-	36.015	-	-	(53.334)	-	-	-	-	-	-	11	11
18.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Closing Balance		**1.500.000**	**374**	**406**	**-**	**175.765**	**75.641**	**61.181**	**3.322**	**213.359**	**42.412**	**80.424**	**9.320**	**-**	**-**	**-**	**2.162.204**	**70.159**	**2.232.363**

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

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

		Notes	Reviewed Current Period 30 June 2014	Reviewed Prior Period 30 June 2013
A.	**CASH FLOWS FROM BANKING OPERATIONS**			
1.1	**Operating profit before changes in operating assets and liabilities**		**187.533**	**253.620**
1.1.1	Interest received		258.836	411.261
1.1.2	Interest paid		(127.773)	(79.973)
1.1.3	Dividends received		10.259	7.556
1.1.4	Fees and commissions received		16.022	17.012
1.1.5	Other income		58.868	19.727
1.1.6	Collections from previously written off loans		8.379	1.146
1.1.7	Payments to personnel and service suppliers		(50.018)	(45.467)
1.1.8	Taxes paid		(77.233)	(47.601)
1.1.9	Others	(1)	90.193	(30.041)
1.2	**Changes in operating assets and liabilities**		**141.364**	**41.864**
1.2.1	Net (increase) decrease in financial assets		(9.316)	(12.912)
1.2.2	Net (increase) decrease in financial assets at fair value through profit or loss		-	-
1.2.3	Net (increase) decrease in due from banks and other financial institutions		-	-
1.2.4	Net (increase) decrease in loans		(788.215)	(185.929)
1.2.5	Net (increase) decrease in other assets		(98.246)	(109.799)
1.2.6	Net increase (decrease) in bank deposits		-	-
1.2.7	Net increase (decrease) in other deposits		-	-
1.2.8	Net increase (decrease) in funds borrowed		607.497	113.534
1.2.9	Net increase (decrease) in matured payables		-	
1.2.10	Net increase (decrease) in other liabilities	(1)	429.644	236.970
I.	**Net cash provided by/(used in) banking operations**		**328.897**	**295.484**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
II.	**Net cash provided by/(used in) investing activities**		**79.801**	**38.966**
2.1	Cash paid for purchase of entities under common control, associates and subsidiaries		-	(120)
2.2	Cash obtained from sale of entities under common control, associates and subsidiaries		-	-
2.3	Fixed asset purchases		(14.469)	(7.382)
2.4	Fixed asset sales		2.592	1.134
2.5	Cash paid for purchase of financial assets available for sale		(553.160)	(493.877)
2.6	Cash obtained from sale of financial assets available for sale		645.066	539.348
2.7	Cash paid for purchase of investment securities		-	-
2.8	Cash obtained from sale of investment securities		-	-
2.9	Others	(1)	(228)	(137)
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
III.	**Net cash provided by/(used in) financing activities**		**(72.581)**	**(67.296)**
3.1	Cash obtained from funds borrowed and securities issued		-	-
3.2	Cash used for repayment of funds borrowed and securities issued		-	-
3.3	Capital increase		-	-
3.4	Dividends paid		(72.581)	(67.296)
3.5	Payments for finance leases		-	-
3.6	Other		-	-
IV.	**Effect of change in foreign exchange rate on cash and cash equivalents**	(1)	**(120)**	**3.676**
V.	**Net increase / (decrease) in cash and cash equivalents**		**335.997**	**270.830**
VI.	**Cash and cash equivalents at beginning of the period**		**498.267**	**466.659**
VII.	**Cash and cash equivalents at end of the period**		**834.264**	**737.489**

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

SECTION THREE

ACCOUNTING POLICIES

I. Basis of presentation

I.a Presentation of consolidated financial statements and notes to the consolidated financial statements according to Turkish Accounting Standards and Banking Accounting Regulations and Safeguarding of Documents

As prescribed in the Article 37 and 38 of the Banking Act No. 5411, the Parent Bank prepares its financial statements and underlying documents in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" and other regulations,explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency and Turkish Accounting Standards (''TAS'') published by Public Oversight Accounting and Auditing Standards Authority. TAS consists of Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

Amounts in the consolidated financial statements, the underlying explanations and disclosures are expressed in Thousands of Turkish Lira unless otherwise stated.

Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position and consolidated results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

I.b The valuation principles used in the preparation of the financial statements

The accounting rules and the valuation principles used in the preparation of the financial statements were implemented as stated in the Turkish Accounting Standards and related regulations, explanations and circulars on accounting and financial reporting principles announced by the BRSA. These accounting policies and valuation principles are explained in the below notes through II to XXIII.

I.c The accounting policies for the correct understanding of the financial statements

The following accounting policies that applied according to BRSA regulations and TAS for the correct understanding of the financial statements and valuation principles used in preparation of the financial statements are presented in more detail below.

I.d In preparing the consolidated financial statements, items which different accounting policies adopted and their ratio on total of related consolidated financial statement

There is no different accounting policy used in consolidated financial statements.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

II. Explanations on usage strategy of financial assets and foreign currency transactions

The main sources of the funds of the Group have variable interest rates. The financial balances are monitored frequently and constant and variable interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the Parent Bank have the flexibility of reflecting the changes in market interest rates to customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The Group liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors' expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Parent Bank.

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. When taking positions, the Parent Bank's unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

The Group's strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency available for sale securities:

A great majority of foreign currency available for sale securities are financed with foreign currency resources. Accordingly, the expected depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to eliminate the risk exposure of cross currency rates.

To mitigate the interest rate risk, a balanced asset composition is established in compliance with the structure of fixed and variable rate funding resources.

The hedging strategies for other foreign exchange risk exposures:

A stable foreign exchange position strategy is implemented: To be secured from cross currency risk, the current foreign exchange position is taken by considering a specific basket of foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.

ACCOUNTING POLICIES (Continued)

III. Information about the Parent Bank and its subsidiaries and associates subject to consolidation

Türkiye Sınai Kalkınma Bankası A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340. The Parent Bank and the entities included in the consolidation are referred to as "the Group" in this report.

The financial statements of the subsidiaries and associates, which were prepared in accordance with the prevailing principles and rules regarding financial accounting and reporting standards in the Turkish Commercial Code and/or Financial Leasing Law and/or communiqués of the Capital Markets Board of Turkey ("CMB"), are duly adjusted in order to present their financial statements in accordance with Turkish Accounting Standards and Turkish Financial Reporting Standards.

When there are differences between the accounting policies of the subsidiaries and the Parent Bank, the financial statements are adjusted in accordance with the principle of materiality. The financial statements of the subsidiaries are prepared as of 30 June 2014.The transactions and balances between the consolidated entities and the Parent Bank are eliminated.

Yatırım Finansman Menkul Değerler A.Ş. :

Yatırım Finansman Menkul Değerler A.Ş. ("YFAŞ") was established in 15 October 1976. The Company's purpose is to perform capital market operations specified in the Company's main contract in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95,78%. The Company's headquarters is located at Istanbul/Türkiye.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB GYO") was established on 3 February 2006. Core business of the company is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 59,00%. The Company's headquarters is located at Istanbul/Türkiye.

İş Finansal Kiralama A.Ş. :

İş Finansal Kiralama A.Ş. ("İş Finansal Kiralama") was established on 8 February 1988. The company has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No 6361. The purpose of the company is performing domestic and foreign financial leasing activities and all kind of rental (leasing) transactions within the framework of legislation The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 28,56% and the share of Türkiye İş Bankası A.Ş. is 27,79%. The Company's headquarters is located at Istanbul/Türkiye.

İş Faktoring A.Ş. :

İş Faktoring A.Ş. ("İş Faktoring"), was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş with 78,23% shareholding. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%. Company's headquarters is located at Istanbul/Türkiye.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

III. Information about the Parent Bank and its subsidiaries and associates subject to consolidation (continued)

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş (“İş Girişim”) started its venture capital operations by the decision of Capital Market Board dated 5 September 2000. The principal activity of the Company is to perform long-term investments to venture capital companies mainly established or to be established in Turkey, have development potential and require resource. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 16,67% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29,00%. The Company’s headquarters is located at Istanbul/Türkiye.

IV. Explanations on forward and option contracts and derivative instruments

The Parent Bank is exposed to financial risk which depend on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Group are foreign currency forwards, swaps, futures trading, futures and option agreements.

The derivative instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. Some of the derivative instruments, although economic hedges, are accounted for as trading transactions since they are not qualified to be hedging instruments as per “Financial Instruments: Recognition and Measurement” (“TAS 39”). Realized gains or losses are reflected in the income statement on these derivative instruments.

According to Capital Markets Board (“CMB”) legislation, Intermediary Institution warrants are capital market instruments that give the holder the right, but not the obligation, to buy or to sell an underlying asset at a specified price on or before a predetermined date where such right is exercised by registered deliver or cash settlement and these warrants are called securitized derivative transactions. In this context, the Bank that issued warrants on foreign currencies, has accounted the costs of issued warrant on liabilities. Warrants are valued on a daily basis over the market value created by the market maker and valuation differences are recorded in the income statement. On withdrawal of the issued warrants, the balance is netted-off with the cost on the liabilities and gain/losses are associated with the income statement. On the other hand, issued warrant is recorded on the statement of off-balance sheet with its nominal value.

V. Explanations on interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value). In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

VI. Explanations on fees and commission income and expenses

Fees and commissions received from cash loans, that are not an integral part of the effective interest rate, and fees for various banking services are recorded as income when collected. Fees and commissions paid for the funds borrowed, which are not integral parts of the effective interest rate of the funds borrowed, are recorded as expense on the date of the payment. As of 30 June 2014, all other income and expenses, fee and commission income and expenses, including commissions received from non-cash loans are recorded on an accrual basis.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments constitute the both of the Group's trading activities and operations. Risks related with these instruments constitutes majority of total risks. Financial instruments affect liquidity, market, and credit risks on the Group's balance sheet in all respects. The Group trades these instruments on behalf of its customers and on its own behalf.

Basically, financial assets create the majority of the commercial activities and operations of the Group. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Settlement date accounting requires (a) accounting of the asset when acquired by the institution, and (b) disposing of the asset out of the balance sheet on the date settled by the institution; and accounting of gain or loss on disposal.

In case of application of settlement date accounting, the entity accounts for the changes that occur in the fair value of the asset in the period between commercial transaction date and settlement date as in the assets that the entity settles.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets.

Fair value differences are not accounted for assets presented at cost or amortized cost; gain or loss of financial assets at fair value through profit and loss are reflected in the income statement, gain or loss of available for sale assets are accounted for under the shareholders' equity.

The methods and assumptions used in determining the reasonable estimated values of all of the financial instruments are explained below.

Cash, Banks and Other Financial Institutions:

Cash and cash equivalents comprise cash in vault and foreign currency cash. Foreign currency cash and foreign currency deposits are reflected to balance sheet in TL which is translated in accordance with prevalent exchange rate on reporting date. The book values of these assets approximate their fair values.

Marketable Securities:

The Group classifies its marketable securities in 3 groups:

<u>Financial assets at fair value through profit and loss</u>: These transactions are classified in two categories. (i) Trading securities for the purposes of short term profit taking through sale or buying back in a near future. (ii) The financial assets classified at inception as financial assets at fair value through profit or loss by the Group. The Group uses such classification above when permitted or for the purposes of providing a more proper disclosure. In this category, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of securities that are traded in an active market are determined based on quoted prices or current market prices.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are booked under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is booked under the "Gains on Securities Trading" account. If the fair value is under the amortized cost, the negative difference is booked under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

Available for sale financial assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income. After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in "Marketable Securities Value Increase Fund" under the equity. All unquoted available for sale stocks are recorded by considering impairment, since respective fair values cannot be reliably measured. At the disposal of available for sale financial assets, value increases/decreases that are recorded in the securities value increase fund under equity are transferred to income statement.

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any. Interest income earned from held-to-maturity investments is recognized as interest income on income statement.

As of the reporting date, the Group calculated internal rate of return of the CPI indexed marketable securities considering expected inflation index of future cash flows. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements.

Explanations on investments in associates and subsidiaries:

Investments in associates and subsidiaries are recorded within the scope of the "Turkish Accounting Standard No.39 Financial Instruments: Recognition and Measurement" (TAS 39). Investments in subsidiaries, whose shares are traded in an active market (stock market), are shown in the financial statements with their fair values by taking into account their prices recorded in the related market (stock market). Investments in subsidiaries and associates, whose shares are not traded in an active market (stock market) are followed at their cost of acquisition and these assets are shown in the financial statements with their cost values after the deduction of, if any, impairment provisions

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

Loans:

Loans are financial assets which have fixed payment terms and are not traded.

Loans are initially recognized at cost and measured at amortized cost by using effective interest rate. The duties, charges and other expenses paid for the collaterals obtained against loans are accepted as transaction costs and reflected to customers.

Turkish Lira ("TL") cash loans are composed of foreign currency indexed loans and working capital loans; foreign currency ("FC") cash loans are composed of investment loans, export financing loans and working capital loans.

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

Provision is set for the loans that may be doubtful and the amount is charged in the current period income statement as well as their classification to non-performing loans as per the related regulations. The collections made related to loans including those on non-performing loans for which provision is made in the current period are recorded in "Provision for Loans and Other Receivables (including received from Loans and receivables with doubtful collectability) " and "Interest Received from Non-performing Loans" account.

Releases of loan loss provisions are recorded by reversing the provisions booked during the year and the collections made related to loan losses previously accounted for are recorded to collections related to the prior period expenses.

VIII. Explanations on impairment on financial assets

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

A financial asset or a financial asset group incurs impairment loss only if there is an objective evidence related to the occurrence of one or more than one event ("loss event") after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized.

Loans are classified and followed in line with the provisions of the "Regulation on Identification of Loans and Other Receivables and Provisioning against Them", published in the Official Gazette No: 26333 dated 1 November 2006. Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement. The provisions, which are released within the same year, are credited to the "Provision Expenses" account and the released parts of the provisions from the previous years are transferred to and recognized in the "Other Operating Income" account.

Other than specific provisions, the Parent Bank provides "general provision" for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VIII. Explanations on impairment on financial assets (continued)

Subsequent to the change in the regulation on "Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" published in the Official Gazette No. 27947 dated 28 May 2011; in case of the extension of the payment plan of the loans which are followed under loans and receivables, the general loan loss provision ratio for standard and for the first group loans and receivables should not be less than 5 times of the general provision ratio and for the second group loans and receivables should not be less than 2,5 times of the general provision ratio.

As a consequence of the regulation published in Official Gazette No. 28789 dated 8 October 2013 amending the "Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves", for the banks, of which the consumer loans exceed twenty five percent of total loans, general provision ratio is four percent for consumer loans which are followed under standard loans and receivables except housing loans; and is eight percent for the loans under close monitoring except housing loans. Since the consumer loans of the Parent Bank are composed of personnel loans as of 30 June 2014 and do not exceed the ratios mentioned above, additional general loan loss provision has not been calculated. As mentioned in the regulations on the same date, Banks could apply general loan loss provision ratios is zero percent for cash and non-cash export loans which are followed standard loans; and is five per mille and one per milee for cash and non-cahs loans respectively which is used to small and medium size enterprise. The Parent Bank has started to calculate general loan loss provision thereby using in question ratios after published date of the regulations.

IX. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset when the Group has a legally enforceable right to set off, and when the Group has the intention of collecting or paying the net amount of related assets and liabilities or when the Group has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

X. Explanations on sales and repurchase agreements and lending of securities

Funds provided under repurchase agreements are accounted under "Funds Provided under Repurchase Agreements-TL" and "Funds Provided under Repurchase Agreements-FC" accounts.

The repurchase agreements of the Group are based on the Eurobonds issued by Republic of Turkey Undersecretariat of Treasury and government bonds. In the financial statements, the government bonds and treasury bills sold to customers under repurchase agreements are classified under securities held for trading, available for sale and held to maturity depending on the portfolio they are originally included in and are valued according to the valuation principles of the related portfolios. The income and expenses from these transactions are reflected to the interest income and interest expense accounts in the income statement. Receivables from reverse repurchase agreements are recorded in "Receivables from Reverse Repurchase Agreements" account in the balance sheet.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XI. Explanations on assets held for sale and discontinued operations

Assets held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell. Held for sale assets are not amortized and presented separately in the financial statements. In order to classify an asset as held for sale, only when the sale is highly probable, experienced quite often and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale. Highly saleable condition requires a plan by the management regarding the sale of the asset to be disposed (or else the group of assets), together with an active program for determination of buyers as well as for the completion of the plan. Also the asset (or else the group of assets) shall be actively marketed in conformity with its fair value. On the other hand, the sale is expected to be journalized as a completed sale within one year after the classification date; and the necessary transactions and procedures to complete the plan should demonstrate the fact that the possibility of making significant changes or cancelling the plan is low. Various circumstances and conditions could extend the completion period of the sale more than one year. If such delay arises from any events and conditions beyond the control of the entity and if there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or else group of assets) are continued to be classified as assets held for sale (or else group of assets).

A discontinued operation is a division that is either disposed or held for sale. Results of discontinued operations are included separately in the income statement.

XII. Explanations on goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity 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.

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

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XII. Explanations on goodwill and other intangible assets (continued)

Intangible assets that are acquired prior to 1 January 2005 are carried at restated historical cost as of 31 December 2004; and those acquired subsequently are carried at cost less accumulated amortization, and any impairment. Intangible assets are depreciated over their expected useful lives. Depreciation method and period are reviewed periodically at the end of each year. Intangible assets are mainly composed of rights and they are depreciated principally on a straight-line basis between 1-15 years.

XIII. Explanations on tangible assets

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

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

Normal maintenance and repair expenditures are expensed.

There is no pledge, mortgage or any other lien on tangible assets.

Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards

Depreciation rates and estimated useful lives of tangible assets are as follows.

Tangible Assets	Expected Useful Lives (Years)	Depreciation Rate (%)
Cashboxes	4-25	4-25
Vehicles	5	20
Other Tangible Assets	1-50	2-100

Investment Property

Operating investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognized when it is probable that the future economic benefits that are associated with them will flow to the Group and the cost of them can be measured reliably. Fair value model was chosen in the measurement of the investment properties. Gains and losses arising from changes in the fair values of investment properties are recognized in profit or loss for the period in which it arises.

XIV. Explanations on leasing transactions

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. The lease payments are allocated as principle and interest. 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.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XIV. Explanations on leasing transactions (continued)

The Group as Lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Group's general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

XV. Explanations on provisions and contingent liabilities

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If aforesaid criterias did not compose, the Parent Bank has disclosed mentioned issues in note to financial statements. Provisions are determined by using the Group's best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

Explanations on contingent assets

Contingent assets consist of unplanned or other unexpected events that usually cause a possible inflow of economic benefits to the Parent Bank. Since recognition of the contingent assets in the financial statements would result in the accounting of an income, which maynever be generated, the related assets are not included in the financial statements; on the other hand, if the inflow of the economic benefits of these assets to the Parent Bank is probable, an explanation is made thereon in the footnotes of the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and in case the inflow of the economic benefit to the Parent Bank is almost certain, the related asset and the respective income are recognised in the financial statements of the period in which the change occurred.

XVI. Explanations on liabilities regarding employee benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. In retirement and involuntarily leaving, the Group records the present value of the defined benefit obligation.

There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 month period. Actuarial gains and losses are accounted under Shareholder's Equity since 1 January 2013 in accordance with the Revised TAS 19.

Employees of the Parent Bank are members of "Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Pension Fund"). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of "Regulations on Actuaries" issued based on the related law by an actuary registered in the Actuarial Registry.

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.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVI. Explanations on liabilities regarding employee benefits (continued)

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.

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, it has been decided to extend the time related to transfer by the decision of Council of Minister published in the Official Gazette No. 29987 dated 30 April 2014 for one more year due to not to realize the transfer process.

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 Parent 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 Parent Bank.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVII. Explanations on taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates that have been enacted by the reporting date.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income.
Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax asset is not allocated over the amount of general provisions and provisions for possible losses in accordance with the circular of BRSA dated 8 December 2004 no. BRSA.DZM.2/13/1-a-3

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

According to the second paragraph of the Article 53 of the Banking Act No: 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

Transfer pricing

Transfer pricing is regulated through Article 13 of Corporate Tax Law titled “Transfer Pricing through camouflage of earnings”. Detailed information for the practice regarding the subject is found in the “General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing”. According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against “arm’s length principle”, the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

XVIII. Additional explanations on borrowings

Borrowings are recognized at initial cost on transaction date and carried at amortized cost using effective interest method. In the accompanying financial statements, foreign currency debt instruments are valued using foreign exchange rates of the Parent Bank as of the period end and interest expense amounts of related period arising from borrowings are reflected in the financial statements.

All other borrowing costs are recorded to the income statement at the period they are incurred.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XIX. Explanations on share certificates issued

In the current period, in the meeting of the General Assembly held on 27 March 2014, it has been resolved that, paid-in capital of the 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, 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 and has been published in the Turkish Trade Registry Gazette No: 8573 on 21 May 2014.

In the prior period, 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.

XX. Explanations on acceptances

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

XXI. Explanations on government incentives

The Parent Bank does not use government incentives.

XXII. Explanations on segment reporting

In accordance with its mission, the Parent Bank mainly operates in investment and corporate banking segments.

Corporate Marketing Management operations are included in the corporate banking. The corporate banking is serving financial solutions and banking services for its large-scale corporate customers. Among the services given to corporate customers are; TL and foreign exchange operating loans, investment credits, project financing, letters of credit and letters of guarantees.

The activities of investment banking are; the operations of Treasury, Corporate Finance and Financial Institutions. Under the investment banking activities, portfolio management for corporate and individual customers, marketable securities intermediary activities, cash flow management and all types of corporate finance services is provided.

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

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XXII. Explanations on segment reporting (continued)

The segmental allocation of the Group's net profit, total assets and total liabilities are shown below.

Current Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	160.293	113.720	(5.936)	268.077
Net Fees and Commission Income	4.388	313	9.117	13.818
Other Income	25.782	13.623	61.686	101.091
Other Expense	(35.754)	(11.701)	(71.111)	(118.566)
Profit Before Tax	154.709	115.955	(6.244)	264.420
Tax Provision				(50.021)
Net Profit				**214.399**
Group's profit / loss				213.359
Non-controlling interest				1.040
Current Period	**Corporate Banking**	**Investment Banking**	**Other**	**Total**
Segment Assets	9.477.441	3.876.889	829.769	14.184.099
Investment in Associates and Subsidiaries	-	-	248.745	248.745
Total Assets	**9.477.441**	**3.876.889**	**1.078.514**	**14.432.844**
Segment Liabilities	9.833.995	1.657.542	708.944	12.200.481
Shareholders' Equity	-	-	2.232.363	2.232.363
Total Liabilities	**9.833.995**	**1.657.542**	**2.941.307**	**14.432.844**

Prior Period(*)	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	138.185	86.963	4.691	229.839
Net Fees and Commission Income	3.566	336	11.737	15.639
Other Income	7.224	38	35.454	42.716
Other Expense	(29.206)	(10.661)	(37.009)	(76.876)
Profit Before Tax	119.769	76.676	14.873	211.318
Tax Provision				(37.897)
Net Profit				**173.421**
Group's profit / loss				174.592
Non-controlling interest				(1.171)
Prior Period(**)	**Corporate Banking**	**Investment Banking**	**Other**	**Total**
Segment Assets	9.000.617	3.353.574	847.534	13.201.725
Investment in Associates and Subsidiaries	-	-	237.491	237.491
Total Assets	**9.000.617**	**3.353.574**	**1.085.025**	**13.439.216**
Segment Liabilities	8.905.217	1.859.560	656.905	11.421.682
Shareholders' Equity	-	-	2.017.534	2.017.534
Total Liabilities	**8.905.217**	**1.859.560**	**2.674.439**	**13.439.216**

(*)The information is related to 30 June 2013.

(**)The information is related to 31 December 2013.

XXIII. Explanations on other matters

None.

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

SECTION FOUR

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT

I. Explanations related to the consolidated capital adequacy standard ratio

Since 1 July 2012, capital adequacy standard ratio is calculated in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks", which was published on 28 June 2012 in the Official Gazette numbered 28337. In this context, credit and market risk are calculated based on the Standardised Approach and the operational risk is calculated based on the Basic Indicator Approach. In the calculation process of credit risk, loans are classified in the related risk weight by taking into account the risk portfolio types, ratings and credit risk mitigation techniques. The Parent Bank uses "comprehensive guarantee approach" for trading book items in the credit mitigation process.

As of 30 June 2014, the Parent Bank's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 19,06%.

Information related to the consolidated capital adequacy standard ratio

	Risk Weights (*)						
Current Period	**Parent Bank**						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.532.567**	**1.082.277**	**2.067.057**	**-**	**9.616.164**	**18**	**35**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.532.239	-	342.754	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	1.034	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	313	-	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	801.222	606.349	-	-	-	-
Contingent and Non-Contingent Claims on Corporate	-	281.055	729.457	-	9.175.848	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	388.497	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	18	35
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures		-	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	97.815	-	-
Other Claims	15	-	-	-	341.467	-	-

(*)The Parent Bank has no credit risk related to 10%, 250% and 1250% risk weight.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the consolidated capital adequacy standard ratio(continued)

	Risk Weights (*)						
Prior Period	**Parent Bank**						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.334.350**	**633.468**	**2.348.062**	**-**	**8.955.146**	**13**	**35**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.334.314	-	368.699	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	1.500	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	319	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	419.010	783.400	-	-	-	-
Contingent and Non-Contingent Claims on Corporate	-	214.139	777.505	-	8.483.099	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	418.458	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	13	35
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	106.009	-	-
Other Claims	36	-	-	-	364.538	-	-

(*)The Parent Bank has no credit risk related to 10%, 250% and 1250% risk weight.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the consolidated capital adequacy standard ratio (continued)

	Risk Weights (*)						
Current Period	**Consolidated**						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.546.881**	**1.350.312**	**2.125.436**	**-**	**9.813.368**	**18**	**35**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.546.543	-	342.754	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	600	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	9.853	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	313	-	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	1.069.257	768.462	-	-	-	-
Contingent and Non-Contingent Claims on Corporate	-	281.055	729.457	-	9.182.680	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	284.163	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	18	35
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	92.719	-	-
Other Claims	25	-	-	-	528.116	-	-

(*)The Group has no credit risk related to 10%, 250% and 1250% risk weight.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the consolidated capital adequacy standard ratio (continued)

	Risk Weights (*)						
Prior Period	**Consolidated**						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.348.823**	**673.707**	**2.712.906**	**-**	**8.925.870**	**13**	**35**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.348.716	-	368.699	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	600	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	1.929	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	319	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	459.249	1.250.454	-	-	-	-
Contingent and Non-Contingent Claims on Corporate	-	214.139	777.505	-	8.486.612	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	315.648	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	13	35
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	92.833	-	-
Other Claims	107	-	-	-	344.496	-	-

(*)The Group has no credit risk related to 10%, 250% and 1250% risk weight.

Summary information related to the consolidated capital adequacy standard ratio

	Parent Bank	Consolidated
	Current Period	**Current Period**
Capital Requirement for Credit Risk (Amount subject to Credit Risk*0,08) (CRCR)	869.300	891.700
Capital Requirement for Market Risk (CRMR)	15.858	20.920
Capital Requirement for Operational Risk (CROR)	65.693	70.605
Shareholders' Equity	2.238.359	2.342.705
Shareholders' Equity /((CRCR+CRMR+CROR) *12,5)*100)	**18,83**	**19,06**
Principal Capital /((CRCR+CRMR+CROR) *12,5)*100)	**17,55**	**18,08**
Core Capital/((CRCR+CRMR+CROR) *12,5)*100)	**17,55**	**18,08**

	Parent Bank	Consolidated
	Prior Period	**Prior Period**
Capital Requirement for Credit Risk (Amount subject to Credit Risk*0,08) (CRCR)	820.477	833.372
Capital Requirement for Market Risk (CRMR)	15.916	26.548
Capital Requirement for Operational Risk (CROR)	56.851	63.333
Shareholders' Equity	2.026.807	1.912.404
Shareholders' Equity/((CRCR+CRMR+CROR) *12,5)*100	**18,15**	**16,57**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity

	Parent Bank	Consolidated
	Current Period	**Current Period**
TIER 1 CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	1.500.374	1.500.374
Share Premium	-	406
Share Cancellation Profits	-	-
Legal Reserves	307.082	315.909
Other Comprehensive Income according to TAS	94.857	94.217
Profit	198.628	257.925
Net Current Period Profit	198.628	215.513
Prior Period Profit	-	42.412
Provisions for Possible Losses	-	-
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	-	-
Minority Shareholder	-	70.159
Tier I Capital Before Deductions	**2.100.941**	**2.238.990**
Deductions From Tier I Capital		
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	14.285	6.627
Leasehold Improvements on Operational Leases (-)	97	1.638
Goodwill and Intangible Assets and Related Deferred Tax Liabilities (-)	640	2.192
Net Deferred tax assets / liabilities (-)	-	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-	-
Investments in own common equity (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and FinancialInstitutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	6.139
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the10% Threshold of Tier I Capital (-)	-	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-	-
Mortgage Servicing Rights not deducted (-)	-	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-	-
Total regulatory adjustments to Tier 1 capital	**15.022**	**16.596**
Tier 1 capital	**2.085.919**	**2.222.394**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity (continued)

	Parent Bank	Consolidated
	Current Period	**Current Period**
ADDITIONAL CORE CAPITAL		
Preferred Stock not Included in Tier I Capital and the Related Share Premiums	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)	-	-
Additional Core Capital before Deductions	-	-
Deductions from Additional Core Capital		
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
Deductions from Additional Core Capital in cases where there are no adequate Tier II Capital (-)	-	-
Total Deductions from Additional Core Capital	-	-
Total Additional Core Capital	-	-
Deductions from Core Capital		-
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
Total Core Capital	**2.085.919**	**2.222.394**
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)	42.050	42.050
Pledged Assets of the Shareholders to be used for the Bank's Capital Increases	-	-
General Provisions	110.738	103.165
Tier II Capital before Deductions	**152.788**	**145.215**
Deductions from Tier II Capital	-	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I	-	-
Other items to be Defined by the BRSA (-)	-	-
Total Deductions from Tier II Capital	-	-
Total Tier II Capital	**152.788**	**145.215**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity (continued)

	Parent Bank	Consolidated
	Current Period	**Current Period**
CAPITAL	**2.238.707**	**2.367.609**
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-	-
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	347	347
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	-	-
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	-
Other items to be Defined by the BRSA (-)	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-	24.557
EQUITY	**2.238.360**	**2.342.705**
Amounts lower than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	11.375	27.272
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Tier I Capital	156.173	215.837
Remaining Mortgage Servicing Rights	-	-
Net Deferred Tax Assets arising from Temporary Differences	28.051	31.920

The tables of "Summary information related to the consolidated capital adequacy standard ratio" , "Information related to the shareholders' equity" and "Information related to the consolidated shareholders' equity" stated in second paragraph of the article no.7 of the Banking Regulation and Supervision Agency in line with Communiqué on Financial Statements to be Publicly Announced and the Related Policies and Disclosures has been changed by the communiqué published in Official Gazette No. 28983 dated 26 April 2014.

The Bank has been calculating its non-consolidated and consolidated equity in accordance with the "Communiqué on shareholders' equity" published in Official Gazette No.28756 dated on 5 September 2013 since 1 January 2014 and un-consolidated and consolidated capital adequacy standard ratio is also calculated in this context.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Components of items of shareholders' equity subject to temporary applications

	The Bank		Consolidated	
	Amount considered in the calculation of equity of current period	Total Amount	Amount considered in the calculation of equity of current period	Total Amount
Goodwill and Intangible Assets and Related Deferred Tax Liabilities (-)	-	-	-	-
Net Deferred Tax Asset/Liability	-	-	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-	-	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	-	30.697	246.534
Minority Shares in Tier I Capital	-	-	-	-
Third parties' shares in additional core capital	-	-	-	-
Third parties' shares in tier II capital	-	-	-	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued before 1.1.2014)	42.050	105.125	42.050	105.125

Details on Subordinated Liabilities

The subordinated loan that The Parent Bank has used from the International Finance Corporation evaluated as subordinated debt securities due to having the conditions stated in the Article 8. of Regulation on Equity of Banks and BRSA permission; and as of 30 June 2014, 40% of the subordinated loan in the amount of TL 105.125 (50 million US Dollar) is taken into consideration in the calculation of Supplementary Capital.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity (continued)

	The Parent Bank	Consolidated
CORE CAPITAL	**Prior Period**	**Prior Period**
Paid-in Capital	1.300.000	1.300.000
Nominal Capital	1.300.000	1.300.000
Capital Commitments (-)	-	-
Inflation Adjustment to Share Capital	374	374
Share Premium	-	388
Share Cancellation Profits	-	-
Legal Reserves	254.006	262.400
Inflation Adjustment on Legal Reserves, Statutory Reserves and Extraordinary Reserves	-	-
Profit	326.057	365.889
Current Period Profit	326.057	303.890
Prior Years' Profits	-	61.999
Provisions for Possible Losses up to 25% of Core Capital	-	-
Profit on sale of associates, subsidiaries and buildings	8.920	8.920
Primary subordinated loans	-	-
Non-controlling interest	-	75.520
Loss that is not covered with reserves (-)	-	-
Net current period loss	-	-
Prior period loss	-	-
Leasehold improvements (-)	(111)	(1.776)
Intangible assets (-)	(645)	(1.244)
Deferred-assets for tax which exceeds 10% of core capital (-)	-	-
Excess amount expressed in the Law (Article 56, 3rd paragraph) (-)	-	-
Consolidation Goodwill (Net) (-)	-	(1.005)
Total Core Capital	**1.888.601**	**2.009.466**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity (continued)

	The Parent Bank	Consolidated
SUPPLEMENTARY CAPITAL	**Prior Period**	**Prior Period**
General Loan Loss Provisions	104.331	96.583
45% of the Revaluation Reserve for Movable Fixed Assets	-	-
45% of the of Revaluation Reserve for Properties	-	-
Bonus Shares Obtained from Associates, Subsidiaries and Entities Under Common Control	-	-
Primary Subordinated Loans Excluded in the Calculation of the Core Capital	-	-
Secondary Subordinated Loans (*)	42.400	42.400
45% of the Marketable Securities Value Increase Fund (**)	(8.169)	(702)
Indexation Differences for Capital Reserves, Profit Reserves and Retained Earnings (Except Indexation Differences for Legal Reserves, Statutory Reserves and Extraordinary Reserves)	-	-
Non Controlling Interest	-	1
Total Supplementary Capital	**138.562**	**138.282**
CAPITAL	**2.027.163**	**2.147.748**
DEDUCTIONS FROM THE CAPITAL	**(356)**	**(235.344)**
Shareholdings in Non-consolidated Banks and Financial Institutions	-	-
Loans Extended to Banks, Financial Institutions (Domestic and Abroad) and Qualified Shareholders, Like Secondary Subordinated Loan and Debt Instruments Purchased from These Institutions Issued, Like Primary and Secondary Subordinated Loan	-	-
Banks and Financial Institutions to which are Accounted for Under Equity Method, but, are not Consolidated	-	(234.988)
Loans Extended Being Non-compliant with Articles 50 and 51 of the Law	-	-
The Net Book Value of Properties Exceeding Fifty Percent of Equity and Properties Held for Sale and Properties and Commodity to be Disposed, Acquired in Exchange of Loans and Receivables According to the Article 57 of the Banking Law and have not been Disposed yet After 5 Years After Foreclosure	(356)	(356)
Securitisation Positions Deducted from Equity Preferred	-	-
Other	-	-
TOTAL SHAREHOLDERS' EQUITY	**2.026.807**	**1.912.404**

(*) According to BRSA's "Regulation on Equity of Banks", 40% amount of the Parent Bank's Subordinated Loan is included in the calculation of supplementary capital if the maturity of the subordinated loan is less than 5 years.

(**) 45% of marketable securities value increase fund is included in computation if marketable securities value increase fund is positive, 100% is included if negative.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

The approaches used for internal capital adequacy assessment in terms of current and future activities

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

II. Explanations related to consolidated credit risk

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

III. Explanations related to the consolidated market risk

In order to avoid the market risk and restrict the risks carried, the Board of Directors determines the limits on market risk. Risk, notional and proportional basis limitation systems are used and informative reports regarding market risk position of the bank are presented to Board of Directors, relevant committees and top management.

The guidelines prepared by Risk Management regarding organization, responsibility and fields of activity were approved by the Board of Directors. Risk management policies were determined and announced throughout the Parent Bank.

Legally, the standard method is used to calculate the consolidated and unconsolidated market risk. In addition to the standard method, the Parent Bank applies Monte Carlo simulation which is internal model to securities portfolio, foreign currency position on a daily or monthly basis to detect the market risks. The success of these models is tested retrospectively. The Parent Bank also makes VaR calculations, scenario analyses and stress tests to detect the risks not caught by using internal models. Market risk is measured on a daily basis and reported to top management, Audit Committee and the Board of Directors weekly and monthly:

The consolidated market risk table is as follows:

1.a Information related to the consolidated market risk:

	Current Period	**Prior Period**
(I) Capital Requirement to be Employed for General Market Risk - Standard Method	6.316	7.438
(II) Capital Requirement to be Employed for Specific Risk - Standard Method	870	843
Capital Requirement for Specific Risk Relating to Securitization Positions – Standard Method	-	-
(III) Capital Requirement to be Employed for Currency Risk - Standard Method	9.692	14.007
(IV) Capital Requirement to be Employed for Commodity Risk - Standard Method	-	-
(V) Capital Requirement to be Employed for Settlement Risk - Standard Method	-	-
(VI) Total Capital Requirement to be Employed for Market Risk Resulting From Options – Standard Method	6	-
(VII) Counterparty credit risk capital requirement - Standard method	4.036	4.260
(VIII) Total Capital Requirement to be Employed for Market Risk in Banks Using Risk Measurement Model	-	-
(IX) Total Capital Requirement to be Employed for Market	20.920	26.548
(X) Amount Subject to Market Risk (12,5 x VIII) or (12,5 x VII)	**261.500**	**331.850**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

III. Explanations related to the consolidated market risk (continued)

1.b Average market risk table as of the month ends during the period:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

2. Explanation related to counter party risk

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

3. Required disclosures in case the capital requirement of the Bank is calculated by a risk measurement model permitted by BRSA

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

IV. Explanations related to consolidated operational risk

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

V. Explanations related to consolidated currency risk

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 monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Parent Bank’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 has no hedging transactions through derivative instruments for its foreign currency borrowings and net foreign currency investments.

Announced current foreign exchange buying rates of the Parent Bank as at reporting date and the previous five working days in US Dollar and EURO are as follows:

	1 US Dollar	1 Euro
A. Bank “Foreign Exchange Valuation Rate”		
30 June 2014	2,1025	2,8678
Prior Five Workdays:		
27 June 2014	2,1050	2,8683
26 June 2014	2,1110	2,8777
25 June 2014	2,1230	2,8888
24 June 2014	2,1180	2,8790
23 June 2014	2,1230	2,8890

Simple arithmetic thirty-day averages of the US Dollar and EURO buying rates of the Parent Bank before the reporting date are TL 2,0987 and 2,8547; respectively.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

V. Explanations related to consolidated currency risk (continued)

Information on the Group's foreign currency risk:

	Euro	US Dollar	Other FC	Total
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased, Precious Metals) and Balances with the Central Bank of Turkey	165.909	157.954	74.763	398.626
Banks	28.639	121.885	3.475	153.999
Financial Assets at Fair Value Through Profit and Loss (*)	3.843	7.374	-	11.217
Money Market Placements	-	-	-	-
Available-For-Sale Financial Assets	28.844	340.847	-	369.691
Loans (**)	3.375.795	5.315.047	-	8.690.842
Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)	-	-	-	-
Held-To-Maturity Investments	-	-	-	-
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets (***)	1.394	32.354	-	33.748
Total Assets	**3.604.424**	**5.975.461**	**78.238**	**9.658.123**
Liabilities				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	9.524	208.706	-	218.230
Funds Provided From Other Financial Institutions	4.289.586	5.212.988	-	9.502.574
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	1.925	17.678	822	20.425
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities (****)	9.797	37.701	-	47.498
Total Liabilities	**4.310.832**	**5.477.073**	**822**	**9.788.727**
Net Balance Sheet Position	**(706.408)**	**498.388**	**77.416**	**(130.604)**
Net Off-Balance Sheet Position	**599.138**	**(502.608)**	**(76.313)**	**20.217**
Financial Derivative Assets	774.627	527.550	4.189	1.306.366
Financial Derivative Liabilities	(175.489)	(1.030.158)	(80.502)	(1.286.149)
Non-Cash Loans (*****)	200.936	728.931	9.279	939.146
Prior Period				
Total Assets	3.895.362	5.749.872	2.162	9.647.396
Total Liabilities	4.186.305	5.267.973	907	9.455.185
Net Balance Sheet Position	**(290.943)**	**481.899**	**1.255**	**192.211**
Net Off –Balance Sheet Position	**(74.627)**	**(287.450)**	**2**	**(362.075)**
Financial Derivative Assets	505.646	308.449	14.559	828.654
Financial Derivative Liabilities	(580.273)	(595.899)	(14.557)	(1.190.729)
Non-Cash Loans (*****)	223.885	722.887	727	947.499

(*)Exchange rate differences arising from derivative transactions amounting to TL 20.865 is deducted from "Financial Assets at Fair Value Through Profit and Loss".
(**)Loans extended include TL 1.481.880 foreign currency indexed loans.
(***)Prepaid expenses amounting to TL 289 have not been included in "Other Assets".
(****) Marketable securities valuation increase fund amounting to TL 41.667 and exchange rate differences arising from derivative transactions amounting to TL 21.048 have not been included in "Other Liabilities". Borrower funds amounting TL 37.079 based on foreign currencies have been included in "Other Liabilities".
(*****) Has no effect on net off-balance sheet position.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Parent Bank. General and specific interest rate risk tables in the standard method, by including assets and liabilities, are taken into account in determination of the Capital Adequacy Standard Ratio and to calculate the overall interest rate risk of the Parent Bank.

Forecast results which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analyzes. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

The amount of local borrowings is very low considering the total liabilities of the Parent Bank. As the Parent Bank is a development and investment bank, it obtains most of the funding from abroad.

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Parent Bank screens many risk control ratio including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and top management, the Board of Directors and the Audit Committee are informed of these risks.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (*)	Total
Assets							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-	-	407.747	407.747
Banks	164.950	224.795	-	-	-	51.398	441.143
Financial Assets at Fair Value Through Profit and Loss	7.308	26.475	16.228	15.275	6.813	871	72.970
Money Market Placements	384.414	-	-	-	-	-	384.414
Available-for-Sale Financial Assets	878.326	686.232	718.626	440.007	246.789	29.610	2.999.590
Loans	1.327.457	3.979.911	3.520.218	611.454	37.008	63.453	9.539.501
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (**)	9.233	1.393	-	-	-	576.853	587.479
Total Assets	**2.771.688**	**4.918.806**	**4.255.072**	**1.066.736**	**290.610**	**1.129.932**	**14.432.844**
Liabilities							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	2.209.479	-	-	-	-	-	2.209.479
Miscellaneous Payables	-	-	-	-	-	94.094	94.094
Marketable Securities Issued	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	2.695.533	3.579.070	2.111.914	382.685	808.898	-	9.578.100
Other Liabilities (***)	46.502	3.158	10.397	15.258	-	2.475.856	2.551.171
Total Liabilities	**4.951.514**	**3.582.228**	**2.122.311**	**397.943**	**808.898**	**2.569.950**	**14.432.844**
Balance Sheet Long Position	**-**	**1.336.578**	**2.132.761**	**668.793**	**-**	**-**	**4.138.132**
Balance Sheet Short Position	**(2.179.826)**	**-**	**-**	**-**	**(518.288)**	**(1.440.018)**	**(4.138.132)**
Off-Balance Sheet Long Position	17.929	141.560	-	-	70.784	-	230.273
Off-Balance Sheet Short Position	-	-	(26.336)	(337.635)	-	-	(363.971)
Total Position	**(2.161.897)**	**1.478.138**	**2.106.425**	**331.158**	**(447.504)**	**(1.440.018)**	**(133.698)**

(*) Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

(**) Finance lease receivables amounting to TL 1.393 are presented in "Other Assets" on the basis of related maturities.

(***) Borrower funds amounting to TL 37.640 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments: %

	Euro	US Dollar	Yen	TL
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-
Banks	2,79	2,72	-	10,86
Financial Assets at Fair Value Through Profit and Loss	-	-	-	10,91
Money Market Placements	-	-	-	10,29
Available-for-Sale Financial Assets	5,54	6,77	-	10,22
Loans	3,87	4,29	-	11,36
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,50	0,53	-	9,15
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds	0,50	0,50	-	6,00
Funds Provided From Other Financial Institutions	1,05	1,12	-	10,73

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items of prior period (based on repricing dates)

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (*)	Total
Assets							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-	-	345.040	345.040
Banks	346.369	59.422	-	-	-	15.513	421.304
Financial Assets at Fair Value Through Profit and Loss	8.638	13.816	16.777	18.124	1.697	1.196	60.248
Money Market Placements	50	-	-	-	-	-	50
Available-for-Sale Financial Assets	995.066	721.674	474.783	530.712	199.794	51.029	2.973.058
Loans	1.467.507	3.460.688	3.517.943	519.443	30.518	52.999	9.049.098
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (**)	3.099	4.495	-	-	-	582.824	590.418
Total Assets	**2.820.729**	**4.260.095**	**4.009.503**	**1.068.279**	**232.009**	**1.048.601**	**13.439.216**
Liabilities							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	1.810.249	-	45.955	-	-	-	1.856.204
Miscellaneous Payables	-	-	-	-	-	89.769	89.769
Marketable Securities Issued	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	3.019.458	3.231.546	2.215.319	226.919	538.554	-	9.231.796
Other Liabilities (***)	24.398	3.323	12.895	22.802	440	2.197.589	2.261.447
Total Liabilities	**4.854.105**	**3.234.869**	**2.274.169**	**249.721**	**538.994**	**2.287.358**	**13.439.216**
Balance Sheet Long Position	-	1.025.226	1.735.334	818.558	-	-	3.579.118
Balance Sheet Short Position	(2.033.376)	-	-	-	(306.985)	(1.238.757)	(3.579.118)
Off-Balance Sheet Long Position	117.536	88.022	19.288	-	39.418	-	264.264
Off-Balance Sheet Short Position	-	-	-	(279.007)	-	-	(279.007)
Total Position	**(1.915.840)**	**1.113.248**	**1.754.622**	**539.551**	**(267.567)**	**(1.238.757)**	**(14.743)**

(*) Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

(**) Finance lease receivables amounting to TL 4.518 are presented in "Other Assets" on the basis of related maturities.

(***) Borrower funds amounting to TL 5.954 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments in prior period: %

	Euro	US Dollar	Yen	TL
Prior Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-
Banks	2,97	3,31	-	8,00
Financial Assets at Fair Value Through Profit and Loss	-	-	-	10,61
Money Market Placements	-	-	-	9,00
Available-for-Sale Financial Assets	5,45	6,73	-	9,51
Loans	3,77	4,16	-	9,37
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,51	0,88	-	6,82
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds	0,50	0,50	-	4,00
Funds Provided From Other Financial Institutions	0,89	1,11	-	9,80

The interest rate risk of the banking book items

Interest rate risk caused by banking book accounts includes, Receivables from Central Bank, Receivables from Money Markets, Receivable from Banks, Available for Sale Financial Assets, Receivables from Reverse Repurchase Agreement, Receivables from Loans, Held to Maturity Investments and Other Receivables, which are monitored in banking book, in assets and includes Payables to Central Bank in banking accounts, Payables to Money Markets, Payables to Banks, Funds Provided from Repurchase Agreement, Securities Issued by the Bank, Payables to Loans, Subordinated Debts and Other Debts which are monitored in banking book accounts in liabilities. All derivative instruments are recorded in trading book accounts. FR400AS, in mandatory reports list of BRSA, is prepared and reported each month.

In accordance with the communiqué on "Standard Shock Measurement and Evaluation Method of the Interest Rate Risk in Banking Accounts", economic valuation differences of the Parent Bank arising from fluctuations on interest rates, in different currencies are presented in the table below.

Current Period	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
Currency			
TL	+500 / (400) basis point	(71.734) / 67.046	(3,2%) / 3,0%
Euro	+200 / (200) basis point	27.212 / (20.389)	1,2% / (0,9%)
US Dollar	+200 / (200) basis point	37.944 / (57.092)	1,7% / (2,6%)
Total (for Negative Shocks)		**(10.435)**	**(0,5%)**
Total (for Positive Shocks)		**(6.578)**	**(0,3%)**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

The interest rate risk of the banking book items (continued)

Prior Period / Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
TL	+500 / (400) basis point	(60.344) / 54.394	(3,0%) / 2,7%
Euro	+200 / (200) basis point	13.280 / (20.955)	0,7% / (1,0%)
US Dollar	+200 / (200) basis point	(9.590) / 4.765	(0,5%) / 0,2%
Total (for Negative Shocks)		**38.204**	**1,9 %**
Total (for Positive Shocks)		**(56.654)**	**(2,8%)**

VII. Explanations related to consolidated stock position risk

The Group is exposed to equity shares risk arising from investments on firms traded in Borsa Istanbul (BIST). Share certificate investments are almost used for trading purpose. However, these investments are not actively bought/sold by the Group. The Group classified its share certificate investments both as available for sale and as trading securities and net profit/loss of the Group is not affected unless the Group sell share certificates in portfolio of available for sale.

Equity shares are recognized according to "TAS 39- Financial Instruments: Recognition and Measurement". Trading securities in an active market (in exchange market) are reflected to financial statements with fair value taking into account of quoted securities on exchange market. Non-trading securities in an active market (in exchange market) are followed up according to the acquisition cost and recorded by considering impairment.

Equity shares risk due from banking book

Below is the comparison table of the Group's share certificate instruments' book value, fair value and market value.

Current Period	Comparison		
Share Certificate Investments	**Book Value**	**Fair Value**	**Market Value**
Investment in Shares-Grade A	**10.554**	**-**	**10.554**
Quoted	10.554	-	10.554

Prior Period	Comparison		
Share Certificate Investments	**Book Value**	**Fair Value**	**Market Value**
Investment in Shares-Grade A	**16.772**	**-**	**16.772**
Quoted	16.772	-	16.772

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VII. Explanations related to consolidated stock position risk (continued)

Equity shares risk due from banking book (continued)

On the basis of the following table, private equity investments in sufficiently diversified portfolios, type and amount of other risks, cumulative realized gains and losses arising from selling and liquidation in the current period, total unrealized gains and losses, total revaluation increases of trading positions on stock market and their amount that included to core capital and supplementary capital are shown.

Current Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio		Total	Included in Supplementary Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	-	-	-	111	-	111
Other Share Certificates	9.922	-	-	-	-	-
Total	**9.922**	**-**	**-**	**111**	**-**	**111**

Current Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio		Total	Included in Supplementary Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	(497)	-	-	223	-	100
Other Share Certificates	-	-	-	-	-	-
Total	**(497)**	**-**	**-**	**223**	**-**	**100**

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VIII. Explanations related to the consolidated liquidity risk

The Parent Bank's future cash flows and current positions are taken into consideration for managing the market and liquidity risks. The Parent Bank does not invest into illiquid markets and instruments. The liquidity ratios are followed up and the maturity match and the coverage of liquidity need are targeted in the context of asset-liability management. Although the Parent Bank started to perform tests to calculate liquidity risk with internal models, the risk is still followed up basically by arranging the risks with respect to (holding period) data.

For the purpose of meeting the liquidity requirement, the Parent Bank chooses one of the three or more of the following; disposing liquid assets, increasing short-term borrowing, decreasing illiquid assets or increasing capital. The Parent Bank's liquidity management is implemented by meeting all the obligations on time considering the Parent Bank's reputation. The cash flow projections and the fund requirement predictions are made by using adverse scenarios to determine liquidity risk under urgent and unexpected circumstances.

The Parent Bank meets its short term liquidity requirements with repurchase agreements and inter-bank money market operations. The Parent Bank may also use its available for sale portfolio for urgent liquidity requirement. The Parent Bank meets its long term liquidity needs from the international institutions through borrowings.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Parent Bank. For the purposes of monitoring and assessing the liquidity position of the Parent Bank's assets and liabilities, the liquidity rate is weekly calculated.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VIII. Explanations related to the consolidated liquidity risk (continued)

Presentation of assets and liabilities according to their remaining maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed (*)	Total
Current Period								
Assets								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	12.158	395.589	-	-	-	-	-	407.747
Banks	51.398	164.950	224.795	-	-	-	-	441.143
Financial Assets at Fair Value Through Profit and Loss	871	2.375	8.722	17.383	31.902	11.717	-	72.970
Money Market Placements	-	384.414	-	-	-	-	-	384.414
Financial Assets Available-for-Sale	-	320.227	73.786	402.793	884.533	1.288.641	29.610	2.999.590
Loans	63.453	393.313	353.161	1.585.545	5.363.502	1.780.527	-	9.539.501
Held-to-Maturity Investments	-	-	-	-	-	-	-	-
Other Assets (**)	-	9.233	-	1.393	-	-	576.853	587.479
Total Assets	**127.880**	**1.670.101**	**660.464**	**2.007.114**	**6.279.937**	**3.080.885**	**606.463**	**14.432.844**
Liabilities								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	-	627.418	207.762	603.878	3.617.531	4.521.511	-	9.578.100
Money Market Borrowings	-	2.209.479	-	-	-	-	-	2.209.479
Securities Issued	-	-	-	-	-	-	-	-
Miscellaneous Payables	15.331	-	822	-	-	-	77.941	94.094
Other Liabilities (***)	-	43.596	1.657	4.046	24.127	1.585	2.476.160	2.551.171
Total Liabilities	**15.331**	**2.880.493**	**210.241**	**607.924**	**3.641.658**	**4.523.096**	**2.554.101**	**14.432.844**
Liquidity Gap	**112.549**	**(1.210.392)**	**450.223**	**1.399.190**	**2.638.279**	**(1.442.211)**	**(1.947.638)**	**-**
Prior Period								
Total Assets	148.407	1.164.464	591.966	2.273.279	5.859.439	2.768.246	633.415	**13.439.216**
Total Liabilities	26.405	2.225.590	147.073	908.737	3.487.870	4.365.515	2.278.026	**13.439.216**
Liquidity Gap	**122.002**	**(1.061.126)**	**444.893**	**1.364.542**	**2.371.569**	**(1.597.269)**	**(1.644.611)**	**-**

(*) Other assets and shareholders' equity, provisions and tax liability, which are necessary and cannot be converted into cash in the near future for the Bank's ongoing activities, such as tangible and intangible assets, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

(**)Finance lease receivables amounting to TL 1.393 are presented in "Other Assets" on the basis of related maturities.

(***)Borrower funds amounting to TL 37.640 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

IX. Explanations related to consolidated securitization positions

None.

X. Explanations related to consolidated credit risk mitigation techniques

Offsetting is not used as a credit risk mitigation technique. In assessments within the scope of credit risk mitigation techniques, using methods in regard to valuation and management of collaterals are realized in parallel with communiqué relating to Credit Risk Mitigation Techniques. Financial collaterals are evaluated on a daily basis in the Parent Bank. Depending on the comprehensive financial collateral approach, risk mitigating effects of the collaterals are considered through the standard volatility adjustments. Value of the real estates subject to the collateral is determined at least once a year for commercial real estates and determined at least triennially for residential real estates. In the cases that significant changes in market conditions appear, the review is carried out at more frequent intervals. Within the communiqué, as a matter of credit risk mitigation techniques, only residences and commercial real estates (Warehouse, School, Hospital, Office and Store) which are not used for production purposes and can provide rental income are taken into consideration. In addition, land, field and orchard lands are also considered within same concept. Value of the real estates is assessed by the real estate appraisal companies, which are included in the list to provide valuation service by the CMB. Within the credit risk mitigation techniques, major collaterals that can be used by the Parent Bank are financial collaterals (Treasury Bills, Government Bonds, Cash, Deposit Pledges, Gold, Stock Pledges), guarantees and mortgages. As of 30 June 2014, while guarantees and mortgages are used as credit risk mitigation technique, credit derivatives are not used. As of 30 June 2014 and 31 December 2013 risk amounts which credit risk mitigation techniques are used are shown below the table according to risk types.

Collaterals which are grouped according to risk types

Current Period / **Risk Types**	**Amount (*)**	**Financial Collaterals**	**Other / Physical Collaterals**	**Guarantees and credit derivatives**
Contingent and Non-Contingent Claims on Sovereigns	2.928.333	38.603	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	49.111	62	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	1.563	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	4.426.543	1.933.096	-	-
Contingent and Non-Contingent Claims on Corporates	12.562.536	42.619	-	6.476
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	284.163	-	-	-
Past Due Loans	-	-	-	
Higher-Risk Categories Defined by Agency	53	-	-	-
Securities Secured by Mortgage	-	-	-	-
Securitization Exposures	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	106.485	-	-	-
Other Claims	577.106	49.133	-	-
Total	**20.938.893**	**2.063.513**	**-**	**6.476**

(*)Includes risk amounts before the effect of credit risk mitigation.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to consolidated credit risk mitigation techniques (continued)

Collaterals which are grouped according to risk types (continued)

Prior Period Risk Types	Amount (*)	Financial Collaterals	Other / Physical Collaterals	Guarantees and credit derivatives
Contingent and Non-Contingent Claims on Sovereigns	3.145.346	221.426	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	9.660	40	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	1.593	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	3.953.729	1.329.327	-	-
Contingent and Non-Contingent Claims on Corporates	11.652.551	40.185	-	11.168
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	315.648	-	-	-
Past Due Loans	-	-	-	
Higher-Risk Categories Defined by Agency	48	-	-	-
Securities Secured by Mortgage	-	-	-	-
Securitization Exposures	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	92.833	-	-	-
Other Claims	388.606	44.401	-	-
Total	**19.563.014**	**1.635.379**	**-**	**11.168**

(*)Includes risk amounts before the effect of credit risk mitigation.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies

The purpose of the risk management system is to provide identifying, measuring, reporting, monitoring and controlling the risk exposure on both unconsolidated and consolidated basis, through the policies determined related to controlling the risk-return structure of future cash flows of the Bank and observing, controlling, changing if needed, application procedures, limits and policies and determine the objectives to be achieved through the internal capital adequacy assessment process. In this context, “TSKB Risk Management Policies” and “TSKB Capital Adequacy Policies” are prepared and has become effective following the approval of the Board of Directors.

The Board of Directors of the Bank determine and regularly review the risk level that the Bank is willing to bear to achieve its objectives, considering the risk capacity of Parent Bank.

Risk management process organized within the framework of risk management regulations and served to create a common risk culture throughout the Bank, is in a structure that these risks are described in line with the international regulations and are measuring, analyzing, following, monitoring and reporting within this framework. Within the framework of the mentioned structure, Bank’s Risk Management, continues to activities depending on the Audit Committee, which is established to help the audit and monitoring activities of the Board of Directors in accordance with Banking Law No: 5411 and “Regulation on Internal Systems of Banks” communiqué of Banking Regulation and Supervision Agency. Risk Management is responsible for preparing risk management strategies and policies followed by the Parent Bank, implementation, identification, measurement, monitoring, analysis, evaluation and reporting of risk management system activities.

Risk Management monitors the compliance of the risks in line with the Bank’s policies and standards and limits, and determines violations, analyzes the size of the risk by developing various scenarios, develops and integrates systems providing measuring, monitoring and reporting the risks.

Within the scope of “TSKB Risk Management Policies” the Bank is mainly exposed to credit risk, market risk, operational risk, currency risk, interest rate risk and liquidity risk.

Credit risk management policy

Credit risk is the possibility of incurring losses due to the credit customer or the counterparty, with whom the Bank has made an agreement with, does not fulfil its obligations appropriately or is not able to meet these obligations.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Credit risk management policy (continued)

At Parent Bank, the purpose of credit risk management is to maximize the risk adjusted return of the Bank by managing the risks that the Bank may expose in line with the right parameters in a proactive approach. Although the largest and most visible source for credit risk is the loans that the Bank grants, other banking services regarding the counterparty risk also bear credit risk. In this context, all of the banking activities are assessed within the scope of credit risk.

Credit risk is measured and managed considering the maturity structure of the credit, contractual provisions of the credit and financial conditions, the risk profile structure until the end of the maturity parallel with the possible market conditions, guarantees and collaterals, internal risk ratings and the possible changes in the process of risk exposure, the concentrations (a single company, associated group of companies, industry, country, etc.) and compliance with limits determined by the Board of Directors in order to prevent these concentrations. For measuring credit risk, Internal Rating-Based Model is used in order to monitor, control and provide early warning for credit risk of the Parent Bank.

Maximum effort is expended for the fact that the limits and policies of the external and internal agreements are not so far from the limits and policies of the Parent Bank. The articles in the agreements are compelling even if they are different from existing Bank policies.

In credit risk mitigation policies and procedures, it is considered whether the total amount of credit risk mitigation tool should be taken into account is appropriate or not, also it is controlled whether the protection provided by the credit risk mitigation instruments is in compliance with the capital adequacy level. Parent Bank's Risk Management actively involved in the measurement, analysis and monitoring process of credit risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with credit risk by the Parent Bank's Risk Management.

Market risk management policy and currency risk management policy

Market risk is the possibility of loss that the Bank may face, in the trading book portfolio and in its on-and off-balance sheet positions arising from movements in market prices. Interest rates, foreign exchange rates, equity and commodity prices are the main market risk factors. The purpose of market risk management is to maximize the risk adjusted return of the Parent Bank by managing the risks that the Bank may expose in line with the right parameters in a proactive approach. Market risk is managed by using consistent risk measurement criteria such as fluctuation level of interest rate and/or price fluctuations and Value-at-Risk (VaR) Methods calculations, by establishing proper procedures for performing such controls and observing compliance with determined risk limits, by investigating sources of risk, learning risk and providing consistent information related with market risk to level of organizations within organization structure.

Interest rates, foreign exchange rates, equity and commodity prices are the main market risk factors and in order to control these risks vigorously and it is essential that money and capital market transactions should be "well-diversified" considering the level of risk created in terms of parameters such as maturity, currency, interest rate and other similar parameters. In addition, credit worthiness of issuers of financial instruments creating market risk is strongly taken into account. In the calculation of the market risk, the Parent Bank uses two basic approaches, BRSA Standard Method and Value at Risk (VaR) approach. The accuracy of the VaR model is sustained by applying the retrospective tests (back testing). The test mentioned is based on the comparison of calculated Value at Risk and actual losses. In addition stress tests are applied to determine the effects of the events whose probability of occurrence is low; however, loss level is high on Value at Risk. Currency risk management is measured and monitored by using the VaR model.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Market risk management policy and currency risk management policy (continued)

The Parent Bank's Risk Management actively involved in measurement, analysis and monitoring process of market risk and currency risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with market risk by the Parent Bank's Risk Management.

Operational risk management policy

Operational risk is defined as the risk of loss due to the insufficiency of the processes, the people and the systems or defects or errors on them and external events, and compliance with laws and ethical standards are also included in this definition. These risks are managed by fulfilling special controls of the basic functional areas of the Bank's operations, establishing mechanism distributing appropriate internal audit system and authorization required by this system within the Parent Bank and by applying detailed testing and control of the Bank's all operating systems and by providing full harmony between internal and external systems and opportunity of independent data backup facility.

The Bank applies the principles of separation of duties and distribution of functions in order to reduce the risk of deliberate actions, manipulations or errors. The minimum functions that have to be separated are identified as (i) starting the process (ii) authorisation and approving, (iii) recording the process (iv) confirming the process, (v) safe custody services, (vi) monitoring and auditing, (vii) developing IT systems and activities for daily operations. The transaction information has to be recorded to the system by using IT applications at once the transactions have been completed. Measurement of operational risks carried out by the implementation of Basel II "Basic Indicator Approach" methods. Bank's Risk Management actively involved in the measurement, analysis and monitoring process of operational risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with operational risk by the Parent Bank's Risk Management.

Structural interest rate risk management policy

Structural interest rate risk is the risk of possible changes in interest rates affecting the capital of bank due to re-pricing period of interest bearing assets and liabilities banking books of the Bank and the differences at interest structuring. Structural interest rate risk is managed by providing consistent information related to structural interest rate risk to all the organization stages by using the risk measurement and criteria like the level of fluctuation in interest rates, interest shock and stress test calculations. Maturity mismatches concerning the repricing in predetermined buckets and currency mismatches of asset and liabilities are monitored and measured.Bank manages the interest rate risk by being aware of that it threats the income, capital, liquidity and reputation of the Bank and it comprises of repricing risk, yield curve risk, basis risk, spread risk and option risk.

The Bank's Risk Management actively involved in the measurement, analysis and monitoring process of structural interest rate risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with interest rate risk by the Risk Management.

Liquidity risk management policy

Liquidity risk is the risk of not meeting the balance sheet and off-balance sheet liabilites on time. Liquidity risk is also the possibility of loss that the Bank may face, when there is not sufficient cash or cash inflow to meet the cash outflow in full and in time. There are two risks as funding liquidity risk in capital markets and purchase/ sales operations and market liquidity risk in which funding liquidity risk is the risk that investment and funding requirements cannot be met on time or at a reasonable cost due to the incompatibilities in cash flows.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Liquidity risk management policy (continued)

The market liquidity risk is that no long position can be taken on time or at a reasonable cost due to the markets are not so deep, disruption and the bank cannot enter the markets easily.

It is essential to evaluate the diversification of opportunities on the basis of maturities with maximum extent in order to ensure the efficiency of liquidity management and maintain a sustainable situation. In liquidity risk management, a portfolio structure matched with the functions of generating profit from portfolio and market risk management and risk-return trade-off is constantly monitored without compromising of liquidity requirements.

Parent Bank's Risk Management actively involved in the measurement, analysis and monitoring process of liquidity risk and regular reporting is provided to the Board of Directors, the Audit Committee, top management and other departments related with liquidity risk by the Risk Management.

XII. Explanations related to presentation of financial assets and liabilities at fair value

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

XIII. Explanations related to transactions made on behalf of others and fiduciary transactions

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

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

SECTION FIVE

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS

I. Explanations and disclosures related to the consolidated assets

1.a Information on cash and balances with the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Cash in TL/Foreign Currency	25	-	107	-
Balances with the Central Bank of Turkey	9.096	398.626	42.069	302.864
Other	-	-	-	-
Total	**9.121**	**398.626**	**42.176**	**302.864**

1.b Information related to the account of the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Unrestricted demand deposits	9.096	3.037	42.069	36.086
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	-	-	-
Other (*)	-	395.589	-	266.778
Total	**9.096**	**398.626**	**42.069**	**302.864**

(*)Deposits at Central Bank of Turkey held as reserve requirement.

As per the Communiqué numbered 2005/1 "Reserve Deposits" of Central Bank of 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 CBTR, nr. 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at CBRT based on rates mentioned below. Reserve rates prevailing at 30 June 2014 are presented in table below:

	Foreign Currency Liabilities Required Reserve Rates (%)	Turkish Lira Liabilities Required Reserve Rates (%)
Other liabilities up to 1 year maturity (including 1 year)	13,0	11,5
Other liabilities up to 3 years maturity (including 3 years)	11,0	8,0
Other liabilities longer than 3 years maturity	6,0	5,0

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

2.a Information on financial assets at fair value through profit and loss

2.a.1 Trading securities:

2.a.1.a Trading securities given as collateral or blocked:

As of the reporting date, the Group's trading securities given as collateral or blocked amounted to TL 4.112 (31 December 2013: TL 8.674).

2.a.1.b Trading securities subject to repurchase agreements:

As of the reporting date, the Group has no trading securities subject to repurchase agreements (31 December 2013: TL None).

2.a.2 Information on financial assets designated at fair value through profit and loss:

2.a.2.a Information on financial assets designated at fair value through profit and loss given as collateral or blocked:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss given as collateral or blocked (31 December 2013: None).

2.a.2.b Financial assets designated at fair value through profit and loss subject to repurchase agreements:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss subject to repurchase agreements (31 December 2013: None).

2.b Positive differences related to derivative financial assets held-for-trading:

Derivative instruments held for trading	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Forward Transactions	68	165	2.678	118
Swap Transactions	13.684	14.441	3.977	11.712
Futures Transactions	-	-	-	-
Options	-	17.476	-	22.202
Other	-	-	-	-
Total	**13.752**	**32.082**	**6.655**	**34.032**

3. Information on banks and foreign bank accounts

3.a Information on banks:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Banks				
Domestic	283.135	111.083	9.971	405.770
Foreign	4.009	42.916	-	5.563
Branches and head office abroad	-	-	-	-
Total	**287.144**	**153.999**	**9.971**	**411.333**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

3. Information on banks and foreign bank accounts (continued)

3.b Information on banks and foreign bank accounts:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

4. Information on financial assets available-for-sale

4.a.1 Financial assets available-for-sale subject to repurchase agreements:

	Current Period		Prior Period	
	TL	FC	TL	FC
Government bonds	1.840.807	-	1.497.803	-
Treasury bills	-	-	-	-
Other public sector debt securities	-	273.686	-	243.128
Bank bonds and bank guaranteed bonds	-	-	-	-
Asset backed securities	-	-	-	-
Other	-	-	-	-
Total	**1.840.807**	**273.686**	**1.497.803**	**243.128**

4.a.2 Information on financial assets available-for-sale given as collateral or blocked:

All financial assets available for sale given as collateral comprise of financial assets are issued by the Turkish Treasury. The carrying value of those assets is TL 158.876 (31 December 2013: TL 154.631).

	Current Period		Prior Period	
	TL	FC	TL	FC
Share certificates	-	-	-	-
Bond, Treasury bill and similar investment securities	158.876	-	154.631	-
Other	-	-	-	-
Total	**158.876**	**-**	**154.631**	**-**

4.b Major types of available for sale financial assets:

Available for sale financial assets comprise government bonds 70,76%, Eurobonds 11,33% and shares and other securities 17,91% (31 December 2013: government bonds 67,15%, Eurobonds 11,19% and shares and other securities 21,66%).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

4. Information on financial assets available-for-sale (continued)

4.c Information on financial assets available-for-sale:

	Current Period	Prior Period
Debt securities	2.974.051	2.930.864
Quoted on a stock exchange	2.607.304	2.553.421
Unquoted	366.747	377.443
Share certificates	39.103	65.157
Quoted on a stock exchange	10.716	10.828
Unquoted	28.387	54.329
Impairment provision(-)	(13.564)	(22.963)
Total	**2.999.590**	**2.973.058**

Net book value of unquoted available for sale share certificates is TL 18.893 (31 December 2013: TL 40.200).

5. Information on loans

5.a Information on all types of loans and advances given to shareholders and employees of the Parent Bank:

	Current Period		Prior Period	
	Cash Loans	Non-Cash Loans	Cash Loans	Non-Cash Loans
Direct loans granted to shareholders	88.053	117.412	112.840	117.413
Corporate shareholders	88.053	117.412	112.840	117.413
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	142	-	174	-
Total	**88.195**	**117.412**	**113.014**	**117.413**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:

Current Period	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
		Amendments on Conditions of Contract			Amendments on Conditions of Contract	
Cash Loans	**Loans and Other Receivables (Total)**	**Amendments Related to the Extension of the Payment Plan**	**Other**	**Loans and Other Receivables (Total)**	**Amendments Related to the Extension of the Payment Plan**	**Other**
Non-specialized loans	9.329.453	-	-	146.595	103.147	22.240
Corporation loans	3.048.076	-	-	5.688	5.688	-
Export loans	48.027	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	1.142.002	-	-	-	-	-
Consumer loans	142	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	5.091.206	-	-	140.907	97.459	22.240
Specialized loans	-	-	-	-	-	-
Other receivables	63.453	-	-	-	-	-
Total	**9.392.906**	**-**	**-**	**146.595**	**103.147**	**22.240**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):

Prior Period	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
		Amendments on Conditions of Contract			Amendments on Conditions of Contract	
Cash Loans	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other
Non-specialized loans	8.862.548	-	-	133.551	106.575	-
Corporation loans	2.489.462	-	-	6.032	6.032	-
Export loans	148.074	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	1.237.796	-	-	-	-	-
Consumer loans	174	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	4.987.042	-	-	127.519	100.543	-
Specialized loans	-	-	-	-	-	-
Other receivables	52.999	-	-	-	-	-
Total	**8.915.547**	**-**	**-**	**133.551**	**106.575**	**-**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):

Current Period Number of amendments related to the extension of the payment plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
Extended for 1 or 2 times	-	103.147
Extended for 3,4 or 5 times	-	-
Extended for more than 5 times	-	-

Prior Period Number of amendments related to the extension of the payment plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
Extended for 1 or 2 times	-	106.575
Extended for 3,4 or 5 times	-	-
Extended for more than 5 times	-	-

Current Period The time extended via the amendment on payment plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0-6 Months	-	-
6 Months - 12 Months	-	87.503
1-2 Years	-	-
2-5 Years	-	-
5 Years and Over	-	15.644

Prior Period The time extended via the amendment on payment plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0-6 Months	-	-
6 Months - 12 Months	-	89.987
1-2 Years	-	-
2-5 Years	-	-
5 Years and Over	-	16.588

In relation to the disclosure of changing the conditions of the payment plans of loans, which are followed under standard loans and other receivables and loans and receivables under close monitoring subsequent to the change in the regulation on "Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" published in the Official Gazette No. 27947 dated 28 May 2011; the Parent Bank has provided general loan loss provision at a rate of 5% for four loan customer which is followed under close monitoring loans and other receivables and which have been extended more than 1 year.

5.c Loans according to their maturity structure:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:

Current Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	80	62	142
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	80	62	142
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts- TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
Total	**80**	**62**	**142**

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel (continued):

Prior Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	122	52	174
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	122	52	174
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts- TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
Total	**122**	**52**	**174**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.e Information on commercial loans with instalments and corporate credit cards:

The Parent Bank has not granted any commercial loans with instalments and corporate credit cards as of the reporting date (31 December 2013: None).

5.f Loans according to borrowers:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

5.g Domestic and foreign loans:

	Current Period	Prior Period
Domestic Loans	9.490.757	8.999.954
Foreign Loans	48.744	49.144
Total	**9.539.501**	**9.049.098**

5.h Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	66.777	85.560
Indirect loans granted to subsidiaries and associates	-	-
Total	**66.777**	**85.560**

5.i Specific provisions provided against loans:

	Current Period	Prior Period
Loans and receivables with limited collectability	3.407	17.327
Loans and receivables with doubtful collectability	-	6.378
Uncollectible loans and receivables	13.687	13.681
Total	**17.094**	**37.386**

The Parent Bank allocates 100 % provision for all non-performing loans regardless of the collaterals.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net):

5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Current Period			
(Gross amounts before provisions)	-	-	3.433
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	3.433
Prior Period			
(Gross amounts before provisions)	-	-	9.515
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	9.515

5.j.2 Movement of non-performing loans:

	III. Group	IV. Group	V. Group
Current Period	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Prior Period End Balance	**17.327**	**6.378**	**13.677**
Additions (+)	7.429	102	494
Transfers from Other Categories of Non-performing Loans (+)	-	20.933	6.378
Transfers to Other Categories of Non-performing Loans (-)	(20.933)	(6.378)	-
Collections (-) (*)	(416)	(21.035)	(6.836)
Write-offs (-)	-	-	(26)
Corporate and Commercial Loans	-	-	(1)
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	(25)
Current Period End Balance	**3.407**	**-**	**13.687**
Specific Provisions (-)	(3.407)	-	(13.687)
Net Balance on Balance Sheet	**-**	**-**	**-**

(*)The amount of TL 19.932 transferred to 2.group account receivables is situated in the line of " Collections within the Period"

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net) (continued):

5.j.2 Movement of non-performing loans (continued):

	III. Group	IV. Group	V. Group
Prior Period	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Prior Period End Balance	**59**	**5.316**	**10.249**
Additions (+)	23.642	46	339
Transfers from Other Categories of Non-performing Loans (+)	-	6.374	5.358
Transfers to Other Categories of Non-performing Loans (-)	(6.374)	(5.358)	-
Collections (-)	-	-	(2.078)
Write-offs (-)	-	-	(187)
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	(187)
Current Period End Balance	**17.327**	**6.378**	**13.681**
Specific Provisions (-)	(17.327)	(6.378)	(13.681)
Net Balance on Balance Sheet	-	-	-

5.j.3 Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Current Period			
Period End Balance	3.403	-	55
Specific Provision (-)	(3.403)	-	(55)
Net Balance on Balance Sheet	-	-	-
Prior Period			
Period End Balance	15.099	-	5.374
Specific Provision (-)	(15.099)	-	(5.374)
Net Balance on Balance Sheet	-	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net) (continued):

5.j.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful	Uncollectible Loans and Receivables
Current Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	3.407	-	13.680
Specific Provision Amount (-)	(3.407)	-	(13.680)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	7
Specific Provision Amount (-)	-	-	(7)
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	17.327	6.378	13.669
Specific Provision Amount (-)	(17.327)	(6.378)	(13.669)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	12
Specific Provision Amount (-)	-	-	(12)
Other Loans and Receivables (Net)	-	-	-

5.k Main principles of liquidating non performing loans and receivables:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

5.l Explanations about the write-off policies from the assets:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

5.m Other explanations and disclosures:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

6. Information on held-to-maturity investments

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net):

7.a.1 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated associates and reason of unconsolidating:

Unconsolidated non-financial associates are valued at cost.

7.a.2 Information on unconsolidated associates:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	Terme Metal Sanayi ve Ticaret A.Ş. (Terme)	İstanbul/Türkiye	17,83	18,76
2	Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. (Ege Tarım)	İzmir/Türkiye	10,00	20,00

Non-financial associates, as above, are not consolidated in accordance with the Communiqué on "Preparing Consolidated Financial Statements of the Banks".

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
Terme (*)	15.015	3.477	504	-	-	(64)	176	-
Ege Tarım	10.283	10.185	8.757	15	-	(639)	(876)	-

(*) Represents for the period ended 31 March 2014 financial statements. Prior year profit/loss is obtained from 31 March 2013 financial statements.

Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

Information on associates purchased in the current period

In the current period the Group has not purchased any associates.

7.a.3 Information on the consolidated associates:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	İş Faktoring A.Ş. (İş Faktoring)	İstanbul/Türkiye	21,75	100,00
2	İş Finansal Kiralama A.Ş. (İş Finansal)	İstanbul/Türkiye	28,56	57,36
3	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (İş Girişim)	İstanbul/Türkiye	16,67	57,67

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net) (continued)

7.a.3 Information on the consolidated associates (continued):

		Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
1	İş Faktoring	1.321.796	68.498	886	37.085	-	(400)	6.945	-
2	İş Finansal	2.714.910	600.152	1.952	85.003	-	45.852	37.061	121.199
3	İş Girişim	265.911	260.440	485	-	-	10.626	(2.773)	27.870

	Current Period	Prior Period
Balance at the Beginning of the Period	**234.988**	**210.046**
Movements During the Period	11.545	24.942
Purchases	185	-
Bonus Shares Received	-	-
Current Year Share of Profit	14.769	31.974
Sales	-	-
Revaluation Increase	-	-
Provision for Impairment	(3.409)	(7.032)
Balance at the End of the Period	**246.533**	**234.988**
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

Information on associates purchased in the current period

In the current period the Group has not purchased any associates.

7.a.4 Sectoral information of consolidated associates and the related carrying amounts in the legal books:

	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	30.220	30.644
Leasing Companies	171.884	162.817
Financial Service Companies	-	-
Other Financial Associates	44.429	41.527

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net) (continued)

7.a.5 Information on consolidated associates quoted on stock market:

	Current Period	Prior Period
Associates Quoted on Domestic Stock Markets	216.313	204.344
Associates Quoted on Foreign Stock Markets	-	-

8. Information related to subsidiaries (net)

8.a.1 Information related to equity component of subsidiaries:

	YFAŞ Current Period	TSKB GYO Current Period
CORE CAPITAL		
Paid-in Capital	64.275	150.000
Inflation Adjustment to Share Capital	-	593
Share Premium	4.670	5.739
Legal Reserves	601	-
Current and Prior Years' Profit / Loss	4.820	56.676
Leasehold Improvements (-)	(1.541)	-
Intangible Assets (-)	(533)	(14)
Total Core Capital	**72.292**	**212.994**
SUPPLEMENTARY CAPITAL	**-**	**-**
CAPITAL	**-**	**-**
NET AVAILABLE CAPITAL	**72.292**	**212.994**

	YFAŞ Prior Period	TSKB GYO Prior Period
CORE CAPITAL		
Paid-in Capital	61.000	150.000
Inflation Adjustment to Share Capital	775	-
Share Premium	-	593
Legal Reserves	4.400	5.739
Current and Prior Years' Profit / Loss	5.366	53.671
Leasehold Improvements (-)	(1.665)	-
Intangible Assets (-)	(593)	(6)
Total Core Capital	**69.283**	**209.997**
SUPPLEMENTARY CAPITAL	**1.138**	**-**
CAPITAL	**70.421**	**209.997**
NET AVAILABLE CAPITAL	**70.421**	**209.997**

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry. Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items. Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves. Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the Article of 519 of the Turkish Commercial Code No 6102.

There is no internal capital adequacy assessment approach for the subsidiaries.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.2 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated subsidiaries and reason of unconsolidating and needed capital if they are subject to capital requirement:

TSKB Gayrimenkul Değerleme A.Ş., TSKB Gayrimenkul Danışmanlık A.Ş. and Sürdürülebilir Danışmanlık A.Ş. are valued at cost and are not consolidated since they are not financial subsidiaries. Unconsolidated subsidiaries of the Parent Bank are not subject to minimum capital requirement.

8.a.3 Information related to unconsolidated subsidiaries:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)	İstanbul /Türkiye	99,99	99,99
2	TSKB Gayrimenkul Danışmanlık A.Ş.(TGD A.Ş.)	İstanbul/Türkiye	46,58	100,00
3	Sürdürülebilir Danışmanlık A.Ş.	İstanbul/Türkiye	-	97,00

		Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
1	TSKB GMD	10.753	9.165	1.252	127	-	1.665	1.454	-
2	TGD A.Ş.	565	580	-	14	-	13	(23)	-
3	SD A.Ş.	311	285	-	15	-	(46)	(65)	-

Subsidiaries disposed in the current period

In the current period, the Group has not disposed any subsidiaries.

Subsidiaries purchased in the current period

In the current period, the Group has not purchased any subsidiaries.

8.a.4 Information related to consolidated subsidiaries:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	Yatırım Finansman Menkul Değerler A.Ş.(YFAŞ.)	Istanbul /Turkey	95,78	98,51
2	TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO)	Istanbul/Turkey	59,00	66,84

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
YFAŞ (*)	497.863	73.783	4.047	11.802	885	2.221	3.692	-
TSKB GYO (*)	371.376	213.008	343.039	601	-	3.003	(3.841)	59.295

(*) The consolidated financial data of the subsidiaries are prepared in accordance with BRSA regulations.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.4 Information related to consolidated subsidiaries (continued):

Unconsolidated movement related subsidiaries subjected to consolidation is as follows:

	Current Period	Prior Period
Balance at the Beginning of the Period	**134.086**	**135.856**
Movements During the Period	(4.686)	(1.770)
Purchases	-	-
Bonus Shares Obtained	2.394	-
Current Year Shares of Profit	-	-
Sales	-	-
Revaluation Increase	-	-
Provision for Impairment	(7.080)	(1.770)
Balance At the End of the Period	**129.400**	**134.086**
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

According to the principles of consolidation accounting, the cost values of the consolidated subsidiaries have been eliminated from the accompanying consolidated financial statements.

Subsidiaries disposed in the current period

In the current period, the Group has not disposed any subsidiaries.

Subsidiaries purchased in the current period

In the current period, the Group has not purchased any subsidiaries.

8.a.5 Sectoral information on consolidated subsidiaries and the related carrying amounts in the legal books:

Subsidiaries	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Financial Service Companies	-	-
Other Financial Subsidiaries	129.400	134.086

8.a.6 Subsidiaries quoted on stock exchange:

	Current Period	Prior Period
Quoted in Domestic Stock Exchange	59.295	66.375
Quoted in Foreign Stock Exchange	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

9. Information related to entities under common control

TSKB GYO, one of the subsidiaries of the Parent Bank, established a joint venture with Bilici Yatırım Sanayi ve Ticaret A.Ş. in Adana under the name of Adana Otel Projesi Adi Ortaklığı ("Adana Hotel Project") on 26 May 2011. The main operations of Adana Hotel Project is to start, execute and complete the hotel project which will be operated by Palmira Turizm Ticaret A.Ş. The capital structure of the joint venture is designated as 50% of participation for Bilici Yatırım Sanayi ve Ticaret AŞ and 50% of participation for TSKB GYO. The nominal paid-in capital of Adana Hotel Project comprises 20.000 shares of TL 1 for each amounting to TL 20 in total. TSKB GYO has paid TL 10 in cash for the 50% ownership in Adana Hotel Project.

	Total Assets	Equity	Total Fixed Assets	Interest Income	Securities Income	Current Year Profit /Loss	Prior Year Profit /Loss	Fair Value
Adana Hotel Project	40.627	(340)	36.473	-	-	(151)	(46)	-

10. Information on finance lease receivables (net)

10.a Maturities of investments on finance leases:

	Current Period		Prior Period	
	Gross	**Net**	**Gross**	**Net**
Less than 1 year	1.492	1.393	4.573	4.518
Between 1- 4 years	-	-	-	-
More than 4 years	-	-	-	-
Total	**1.492**	**1.393**	**4.573**	**4.518**

10.b The information on net investments in finance leases:

	Current Period	Prior Period
Gross investments in finance leases	**1.492**	**4.573**
Unearned revenue from finance leases (-)	(99)	(55)
Cancelled finance leases (-)	-	-
Net investments in finance leases	**1.393**	**4.518**

10.c Explanation with respect to finance lease agreements, the criteria used in determination of contingent rents, conditions for revisions or purchase options, updates of leasing amounts and the restrictions imposed by lease arrangements, whether arrays in repayment occur, whether the terms of the contract are renewed, if renewed, the renewal conditions, whether the renewal results any restrictions, and other important conditions of the leasing agreement:

Finance lease agreements are made in accordance with the related articles of the Financial Leasing, Factoring and Financing Company Law No. 6361. There are no restructuring or restrictions having material effect on financial statements.

11. Information on derivative financial assets for hedging purposes

The Group has no derivative financial assets for hedging purposes as of the reporting date (31 December 2013: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

12. Information on tangible assets (net)

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

13. Information on intangible assets

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

14. Information on investment properties

In the current period, the Group has three investment properties with a net book value of TL 229.842 (31 December 2013: TL 222.295) belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector.

Investment Properties Movement table as of 30 June 2014 and 31 December 2013 is as below:

Current Period	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	14.320	-	-	-	14.320
Pendorya Mall	179.200	424	-	-	179.624
Adana Hotel Project	28.775	9.550	(2.427)	-	35.898
Total	**222.295**	**9.974**	**(2.427)**	**-**	**229.842**

Prior Period	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
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
Total	**240.370**	**13.683**	**(407)**	**(31.351)**	**222.295**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

15. Information on deferred tax assets

15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset:

The Group has computed deferred tax asset or liability on ‘’temporary differences’’ arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases.

Deferred tax asset:	**Current period**	**Prior period**
Loan commissions accrual adjustment	11.644	11.771
Other provisions	14.176	10.000
Marketable securities	-	96
Valuation of derivative instruments	1.964	1.712
Employee benefit provision	-	3.597
Useful life difference of fixed assets	142	-
Other	4.366	459
Total Deferred Tax Asset	**32.292**	**27.635**
Deferred tax liabilities:		
Marketable securities	(20.696)	(5.510)
Borrowings commissions accrual adjustment	(2.856)	(3.111)
Valuation of derivative instruments	(643)	-
Useful life difference of fixed assets	(73)	(118)
Total Deferred Tax Liability	**(24.268)**	**(8.739)**
Net Deferred Tax Asset	**8.024**	**18.896**

15.b Temporary differences over which deferred tax asset are not computed and recorded in the balance sheet in prior periods, if so, their expiry date, losses and tax deductions and exceptions:

There is no deductible temporary differences that are not included in calculation of deferred tax asset and not reflected to financial statements in prior periods. (31 December 2013: None). YFAS has deferred tax asset calculated on tax losses amounting to TL 3.744 (31 December 2013: None).

15.c Allowance for deferred tax and deferred tax assets from reversal of allowance:

There is no allowance for deferred tax and deferred tax assets from reversal of allowance (31 December 2013: None).

16. Information on assets held for sale:

In the current period, the Group has no assets held for sale (31 December 2013: None).

17. Information about other assets

17.a Other assets which exceed 10% of the balance sheet total and breakdown of these which constitute at least 20% of grand total:

Other assets do not exceed 10% of total assets, excluding off-balance sheet commitments (31 December 2013: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities

1. Information on maturity structure of deposits

1.a.1 Maturity structure of deposits:

The Parent Bank is not authorized to accept deposits.

1.a.2 Information on saving deposits under the guarantee of saving deposit insurance fund and exceeding the limit of deposit insurance fund:

The Parent Bank is not authorized to accept deposits.

1.b Information on the scope whether the bank with a foreign head office suits saving deposit insurance of the related country:

The Parent Bank is not authorized to accept deposits.

1.c Saving deposits which are not under the guarantee of deposit insurance fund:

The Parent Bank is not authorized to accept deposits

2. Negative differences table related to derivative financial liabilities held-for-trading

Derivative Financial Liabilities Held For Trading	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Forward Transactions	56	47	-	5.782
Swap Transactions	6.152	14.008	7.277	21.950
Futures Transactions	-	-	-	-
Options	-	17.412	-	22.848
Other	-	-	-	-
Total	**6.208**	**31.467**	**7.277**	**50.580**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

3. Information on banks and other financial institutions

3.a Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Loans from Central Bank of Turkey	-	-	-	-
From Domestic Banks and Institutions	75.526	251.469	74.275	271.197
From Foreign Banks, Institutions and Funds	-	9.145.246	-	8.779.565
Total	**75.526**	**9.396.715**	**74.275**	**9.050.762**

3.b Maturity analysis of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	75.526	544.657	74.275	565.123
Medium and long-term	-	8.852.058	-	8.485.639
Total	**75.526**	**9.396.715**	**74.275**	**9.050.762**

3.c Additional information about the concentrated areas of liabilities:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

4. Other liabilities which exceed 10 % of the balance sheet total and the breakdown of these which constitute at least 20 % of grand total

There are no other liabilities which exceed 10% of the balance sheet total (31 December 2013: None).

5. Explanations on financial lease obligations (net)

5.a Explanations on finance lease payables:

The Group has no finance lease payables (31 December 2013: None).

5.b Explanations regarding operational leases:

As of the reporting date, head office of one of the Group companies and 14 branches are subject to operational leasing. Additionally, 18 cars are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2013: 1 head office, 15 branches and 24 cars are subject to operational leasing).

5.c Explanations on the lessor and lessee in sale and lease back transactions, agreement conditions, and major agreement terms:

The Group has no sale and lease back transactions as of the reporting date (31 December 2013: None).

6. Information on derivative financial liabilities for hedging purposes

The Group has no derivative financial liabilities for hedging purposes as of reporting date (31 December 2013: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

7. Information on provisions

7.a Information on general loan loss provisions:

	Current Period	Prior Period
General Provisions	**103.165**	**96.583**
I.Provisions for First Group Loans and Receivables	85.734	79.294
- Additional provisions for the loans with extended payment plan	-	-
II.Provisions for Second Group Loans and Receivables	6.026	5.868
- Additional provisions for the loans with extended payment plan	5.157	*5.329*
Provisions for Non-Cash Loans	2.800	2.798
Other	8.605	8.623

7.b Foreign exchange losses on the foreign currency indexed loans and finance lease receivables:

As of reporting date, the Group's foreign exchange losses on the foreign currency indexed loans amount to TL 4.272 (31 December 2013: TL 614). The foreign exchange losses on the foreign currency indexed loans are netted off from the loans in the financial statements.

7.c The specific provisions provided for unindemnified non cash loans:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

7.d Information related to other provisions:

7.d.1 Provisions for possible losses:

There is no provision for possible losses (31 December 2013: None).

7.d.2 If other provisions exceeds 10% of total provisions, the name and amount of sub-accounts:

	Current Period	Prior Period
Provision for Lawsuits	22.130	-
Other (*)	64.000	50.068
Total	**86.130**	**50.068**

(*) Other provision account includes TL 64.000 of provision for risks on credit portfolio (31 December 2013: TL 50.068).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Parent 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 Parent 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 should not been deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stump duty deducted from allowance and total amount of TL 17.325 tax penalty notice relating to period in question to Parent Bank relying on this report. The Parent Bank assesses that the Bank's practice is in compliance with the legislation and there is no legal basis for the has opened the tax administration's suspended assessments, therefore, lawsuits have been filed against the subjected assessments in various tax courts in Istanbul,Ankara and Izmir. Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

7.d Information related to other provisions(continued)

On the other hand, appeal and objection has been requested by the Parent Bank against the decision of the Court with respect to the Parent Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. Accordingly, as of 30 June 2014, the Parent Bank has provided provisions amounting TL 22.130 in the financial statements in accordance with the decisions made against to the Parent Bank by tax courts of first instance.

The tax and penalty notices related to the decision of the tax court of first instance against the Parent Bank are accrued by administration depending legal process and as of 31 July 2014 the Parent Bank has realized the payments.

8. Information on taxes payable

8.a Information on current taxes payable:

8.a.1 Information on taxes payable:

	Current Period		Prior Period	
Corporate Taxes and Deferred Taxes	TL	FC	TL	FC
Corporate Taxes Payable	39.246	-	18.137	-
Deferred Tax Liability	-	-	-	-
Total	**39.246**	**-**	**18.137**	**-**

8.a.2 Information on taxes payable:

	Current Period	Prior Period
Corporate Taxes Payable	39.246	18.137
Taxation of Securities	1.044	884
Property Tax	-	-
Banking and Insurance Transaction Tax (BITT)	2.019	1.942
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	69	155
Other	1.423	1.213
Total	**43.801**	**22.331**

8.a.3 Information on premiums:

	Current Period	Prior Period
Social Security Premiums-Employee	106	113
Social Security Premiums-Employer	126	125
Bank Social Aid Pension Fund Premium-Employee	-	-
Bank Social Aid Pension Fund Premium-Employer	-	-
Pension Fund Membership Fees and Provisions-Employee	-	-
Pension Fund Membership Fees and Provisions-Employer	-	-
Unemployment Insurance-Employee	28	25
Unemployment Insurance-Employer	56	49
Other	-	17
Total	**316**	**329**

8.b Information on deferred taxes liabilities:

As of the reporting date, the Group has no deferred tax liability (31 December 2013: None).

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

II. Explanations and disclosures related to the consolidated liabilities (continued)

9. Information on liabilities regarding assets held for sale

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

10. Explanations on the number of subordinated loans the group used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

11. Information on shareholders' equity

11.a Presentation of paid-in capital:

	Current Period	Prior Period
Common Stock	1.500.000	1.300.000
Preferred Stock	-	-

11.b Paid-in capital amount, explanation as to whether the registered share capital system ceiling is applicable at bank, if so amount of registered share capital:

Capital System	Paid-in Capital	Ceiling
Registered Capital System	1.500.000	2.500.000

11.c Information on share capital increases and their sources; other information on increased capital shares in current period:

In the current period, in the meeting of the General Assembly held on 27 March 2014, it has been resolved that, paid-in capital of the 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, 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 and has been published in the Turkish Trade Registry Gazette No: 8573 on 21 May 2014.

In the prior period, 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.

11.d Information on share capital increases from capital reserves:

In the current period there is no share capital increases from capital reserves (31 December 2013: None).

11.e Capital commitments in the last fiscal year and at the end of the following interim period, the general purpose of these commitments and projected resources required to meet these commitments:

The Parent Bank has no capital commitments in the last fiscal year and at the end of the following interim period (31 December 2013: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

11. Information on shareholders' equity (continued)

11.f Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:

The prior period income, the profitability and liquidity of the Parent Bank and their trends in the successive periods are followed by Financial Control Department by considering the outcomes of the potential changes in the foreign exchange rate, interest rate and maturity alterations on profitability and liquidity under several different scenario analyses. The Parent Bank operations are profitable and the Parent Bank keeps the major part of its profit by capital increases or capital reserves within the shareholders' equity.

11.g Information on preferred shares:

The Parent Bank has no preferred shares (31 December 2013: None).

11.h Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Associates, Subsidiaries, and Entities Under Common Control	(7.991)	-	(4.582)	-
Valuation Differences	46.748	41.667	(7.025)	15.648
Foreign Exchange Difference	-	-	-	-
Total	**38.757**	**41.667**	**(11.607)**	**15.648**

III. Explanations related to the consolidated off-balance sheet items

1. Information on off-balance sheet liabilities

1.a Nature and amount of irrevocable loan commitments:

	Current Period	Prior Period
Commitments for Forward Purchase and Sales of Assets	276.309	511.345
Commitments for Money Market Brokerage Purchase and Sales	-	84.167
Commitments for Use Guaranteed Credit Allocation	4.765	4.805
Commitments for Stock Brokerage Purchase and Sales	215.541	468.176
Commitments for Letter of Credit	343.007	344.115
Commitments from Forward Short Term Borrowing and Transfers	-	46.740
Other	24.954	1.593
Total	**864.576**	**1.460.941**

1.b Possible losses and commitments related to off-balance sheet items including items listed below:

1.b.1 Non-cash loans including guarantees, acceptances, financial collaterals and other letters of credits

As of the reporting date, total letter of credits is TL 493.368 (31 December 2013: TL 438.033).

1.b.2 Guarantees, surety ships, and similar transactions

As of the reporting date, total letters of guarantee is TL 945.008 (31 December 2013: TL 1.015.387).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (Continued)

1.c.1 Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash Loans Given Against Achieving Cash Loans	-	-
With Maturity of One Year or Less than One Year	-	-
With Maturity of More than One Year	-	-
Other Non-Cash Loans	1.438.376	1.453.420
Total	**1.438.376**	**1.453.420**

1.c.2 Information on sectoral risk breakdown of non-cash loans:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

1.c.3 Information on Ist and IInd group non-cash loans:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

2. Information related to derivative financial instruments

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

3. Explanations on loan derivatives and risk exposures

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

4. Explanations on contingent liabilities and assets

There are 31 legal cases against the Group which are amounting to TL 964 as of the reporting date (31 December 2013: TL 855, 22 legal cases).

There is a lawsuit for the cancellation of the licence of construction dated 16 July 2008 numbered 1120 given for the Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 and related zoning plan dated 6 November 2007 scaled 1/1000 and for motion for stay of execution against Pendik 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.

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (Continued)

4. Explanations on contingent liabilities and assets (continued)

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (Continued)

4. Explanations on contingent liabilities and assets (continued)

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.

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 interventing 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.

5. Custodian and intermediary services

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement

1. Information on interest income

1.a Information on interest on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest on Loans (*)				
Short Term Loans	12.385	8.524	5.731	5.427
Medium and Long Term Loans	55.034	160.063	38.273	134.690
Interest on Non-performing Loans	2.082	1.112	515	-
Premiums received from Resource Utilization Support Fund	-	-	-	-
Total	**69.501**	**169.699**	**44.519**	**140.117**

(*)Commission income from loans has been included to the interest on loans.

1.b Information on interest received from banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of Turkey	-	-	-	-
Domestic Banks	6.715	6	12.294	5
Foreign Banks	84	-	-	-
Branches and Head Office Abroad	-	-	-	-
Total	**6.799**	**6**	**12.294**	**5**

1.c Information on interest received from marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Trading Securities	1.066	7	395	7
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Available for Sale Financial Assets	133.777	11.489	94.027	11.895
Investments Held to Maturity	-	-	-	-
Total	**134.843**	**11.496**	**94.422**	**11.902**

1.d Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest Received from Associates and Subsidiaries	1.204	1.242

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

2. Information on interest expense

2.a Information on interest on funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	5.709	3.536	3.871	2.874
The Central Bank of Turkey	-	-	-	-
Domestic Banks	5.701	369	3.789	390
Foreign Banks	8	3.167	82	2.484
Branches and Head Office Abroad	-	-	-	-
Other Financial Institutions	-	45.200	-	36.124
Total (*)	**5.709**	**48.736**	**3.871**	**38.998**

(*)Commissions given to other financial institutions have been included in interest expense on funds borrowed.

2.b Information on interest expenses to associates and subsidiaries:

There is no interest expense to its associates and subsidiaries (30 June 2013: None).

2.c Information on interest expense to securities issued:

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

3. Information on dividend income

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

4. Information on net trading income (net)

	Current period	Prior period
Profit	**369.906**	**205.312**
Gains on capital market operations	2.312	6.577
On derivative financial instruments (*)	157.671	49.594
Foreign exchange gains	209.923	149.141
Losses (-)	**(339.796)**	**(209.560)**
Losses on capital market operations	(2.130)	(1.316)
On derivative financial instruments (*)	(145.420)	(50.537)
Foreign exchange losses	(192.246)	(157.707)

(*) Foreign exchange gain from derivative transactions amounting to TL 74.993 is presented in "Profit on derivative financial instruments" (30 June 2013: TL 40.451), foreign exchange loss from derivative transactions amounting to TL (76.446) is presented in "Losses on derivative financial instruments" (30 June 2013: TL (38.174)).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

5. Information related to other operating income

	Current Period	Prior Period
Provisions Released	26.507	10.311
Gains on Sale of Assets	10.206	789
From Associate and Subsidiary Sales (*)	9.922	756
From Immovable Fixed Asset Sales	10	33
From Property Sales	274	-
From Other Asset Sales	-	-
Other	6.296	5.247
Total	**43.009**	**16.347**

(*)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 nominal amount of TL 21.000 to Borsa Istanbul A.Ş. at a price of TL 33.390 and the sale amount was collected within the same day.

6. Provision expenses related to loans and other receivables of the Group

	Current Period	Prior Period
Specific provisions for loans and other receivables	3.813	6.674
III. Group	3.319	6.403
IV. Group	-	40
V. Group	494	231
General provision expenses	6.582	8.247
Provision expenses for possible losses	-	-
Marketable securities impairment expenses	1.465	2.259
Trading securities	-	117
Investment securities available for sale	1.465	2.142
Impairment provisions	291	-
Associates	291	-
Subsidiaries	-	-
Entities under common control (Joint Vent.)	-	-
Investment securities held to maturity	-	-
Other	40.502	2.500
Total	**52.653**	**19.680**

(*) Includes the tax provision in the amount of TL 22.130 allocated with relation to the subjects mentioned in Section Five in disclosure No:II-7.d.2 and the provision in the amount of TL 14.000 allocated for the risks related to the loan portfolio in current period.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

7. Information Related to Other Operating Expenses

	Current Period	Prior Period
Personnel expenses	37.679	33.375
Reserve for employee termination benefits	867	480
Bank social aid fund deficit provision	-	-
Impairment expenses of fixed assets	-	-
Depreciation expenses of fixed assets	1.364	1.256
Impairment expenses of intangible assets	-	-
Impairment expense of goodwill	-	-
Amortization expenses of intangible assets	287	194
Impairment on subsidiaries accounted for under equity method	-	-
Impairment on assets for resale	833	9
Depreciation expenses of assets held for resale	16	4
Impairment expenses of assets held for sale	-	-
Other operating expenses	10.743	12.067
Rent expenses	1.697	1.049
Maintenance expenses	362	566
Advertisement expenses	240	845
Other expenses	8.444	9.607
Loss on sales of assets	-	20
Other	12.772	5.856
Total	**64.561**	**53.261**

8. Information on profit/loss before tax from continued and discontinued operations before tax

As of 30 June 2014, profit before tax of the Group has increased by 25,13% as compared to the prior period (30 June 2013: 2,31% decrease). In comparison with the prior year, the Group's net interest income has increased by 16,64% (30 June 2013: 12,00% increase)

9. Information on tax provision for continued and discontinued operations

9.a Information on current tax charge or benefit and deferred tax charge or benefit:

The Group's current tax charge for the period is TL 59.125 (30 June 2013: TL 20.532). Deferred tax benefit is TL 9.104 (30 June 2013: TL 17.365 deferred tax charge).

9.b Information related to deferred tax benefit or charge on temporary differences:

Deferred tax benefit calculated on temporary differences is TL 9.104 (30 June 2013: TL 17.365 deferred tax charge).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

9. Information on tax provision for continued and discontinued operations (continued)

9.c Information related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:

As of 30 June 2014, deferred tax benefit calculated based on temporary timing differences is TL 9.104 (30 June 2013: TL 17.365 deferred tax charge). Deferred tax benefit calculated is TL 3.744 which reflected to income statement on carry forward tax losses, tax deductions and exceptions (30 June 2013: None).

In addition, TL 22.109 deferred tax (31 December 2013: TL 2.133), which is calculated over the fair value differences on available for sale securities, is offset against the “available for sale securities value increase fund” item under equity.

10. Information on net profit from continued and discontinued operations

As of 30 June 2014, net profit of the Group has increased by 23,63% compared to the prior year (30 June 2013: 0,97% decrease).

11. Information on net profit/loss

11.a The nature and amount of certain income and expense items from ordinary operation is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Group's performance for the period:

The Group has generated TL 399.750 interest income, TL 131.673 interest expenses, TL 13.818 net fee and commission income from banking operations (30 June 2013: TL 307.035 interest income, TL 77.196 interest expenses, TL 15.639 net fee and commission income).

11.b The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:

There are no changes in the accounting estimates.

11.c Minority share of profit and loss:

The current year loss attributable to minority shares is TL 1.040 (30 June 2013: TL 1.171 loss). The total shareholders’ equity, including current year profit attributable to minority shares is TL 70.159 (30 June 2013: TL 75.522).

12. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below

	Current Period	**Prior Period**
Gains on Other Fees and Commissions		
Gains on Brokerage Commissions	9.563	9.304
Commissions from Initial Public Offering	312	175
Investment Fund Management Income	891	1.221
Other	910	2.778
Total	**11.676**	**13.478**

V. Explanations related to consolidated statement of changes in shareholders' equity

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. Explanations related to consolidated statement of cash flows

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

VII. Explanations on the risk group of the Parent Bank

1. Information on the volume of transactions related to the Parent Bank's own risk group, outstanding loan and deposit transactions and income and expenses of the period

1.a Current period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	85.560	262	112.840	117.413	91.627	-
Balance at the end of the period	66.777	264	88.053	117.412	83.455	-
Interest and commission income received	1.201	3	1.193	147	2.169	-

1.b Prior period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	83.374	412	107.017	117.413	44.671	4.225
Balance at the end of the period	85.560	262	112.840	117.413	91.627	-
Interest and commission income received(*)	1.239	3	1.265	147	1.230	-

(*)The information is related to 30 June 2013.

1.c Information on deposit held by Parent Bank's own risk group:

The Parent Bank is not authorized to accept deposits.

2. Information on forward and option agreements and other similar agreements made with related parties

The Parent Bank has foreign currency swaps buy amounting to TL 65.180, foreign currency swaps sell amounting to 66.036, foreign currency forward buy transaction amounting to TL 62 and foreign currency forward sell transaction amounting to TL 65 agreements made with Bank's own risk group.The amount has been eliminated from the related accounts included in the consolidation. (31 December 2013: None). As of 30 June 2014, gain or loss from these transactions is TL (514) and this amount is associated with income statements (30 June 2013: None).

3. Total salaries and similar benefits provided to the key management personnel

Benefits provided to key management personnel in the current period amount to TL 8.212 (30 June 2013: TL 6.652).

VIII. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Parent Bank

Not prepared in accordance with the Article No.25 of the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks.

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

SECTION SIX

OTHER EXPLANATIONS

I. Other explanations related to the operations of the Parent Bank

1.a Brief information related to rating carried out by international rating firms:

FITCH RATINGS

Long-term Maturity Foreign Currency (issuer)	BBB-
Long-term Maturity Foreign Currency Outlook (issuer)	Stable
Short-term Maturity Foreign Currency (issuer)	F3
Long-term Maturity National Currency (issuer)	BBB
Long-term Maturity National Currency Outlook (issuer)	Stable
Short-term Maturity National Currency (issuer)	F3
Support Note	2
National Support Note	BBB-
National Note	AAA
National Note Outlook	Stable

Information above is received from Fitch Ratings report dated 31 October 2013.

MOODY'S

Financial Rating Note	D+
Outlook	Stable
Foreign Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Negative
Short-term Maturity	P-3
Domestic Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Negative
Short-term Maturity	P-3

Information above represents updated information as of 5 June 2014.

1.b Informations on corporate governance rating of the Parent Bank:

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services A.Ş.), a corporate governance rating institution with Capital Markets Board license, declared the Bank's corporate governance rating of 9,11 over 10 (91,09%) has increased to 9,40 (94,03%) on its revision report dated 21 October 2013 based on the investigation performed. With respect to CMB's resolution, ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are revised and declared as; 88,65 (Weight: 25%), 97,08 (Weight: 25%), 95,44 (Weight: 15%), 95,08 (Weight: 35%) respectively.

SECTION SIX

OTHER EXPLANATIONS

I. Other explanations related to the operations of the Parent Bank (Continued)

1.b Informations on corporate governance rating of the Parent Bank:

Corporate governance rating methodology is updated in consideration of meeting decisions dated 1 February 2013 of CMB and the Communiqué on Corporate Governance published in 3 January 2014 and corporate governance rating of 2013 of the institutions having corporate governance rating within the frame of updated methodology. The score of TSKB has been revised to 9,06 out of 10, the results of evaluation made under the main headings of Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Director are 9,23 (Weight: 25%), 9,22 (Weight: 25%), 9,42 (Weight: 15%), 8,68 (Weight: 35%) out of 10, respectively.

II. Other explanations related to the events after the reporting date

The Bank has obtained bonus shares amount to TL 10.636 with share capital increase of İş Finansal Kiralama A.Ş.amounting to TL 37.138 on 3 July 2014.

SECTION SEVEN

INDEPENDENT AUDITORS' REVIEW REPORT

I. Explanations on the independent auditors' review report

Consolidated financial statements and the notes to the consolidated financial statements as at 30 June 2014 have been reviewed by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. ("the Turkish member firm of KPMG International, a Swiss entity"). The independent auditors' review report dated 4 August 2014 is presented at the beginning of the consolidated financial statements and related notes.

II. Explanations and notes prepared by independent auditors

There are no other explanations and notes not expressed in sections above related with the Group's operations.

APPENDIX B2

AUDITED BRSA FINANCIAL STATEMENTS OF THE GROUP FOR THE FISCAL YEAR ENDED 31 DECEMBER 2013 (INCLUDING COMPARATIVE 2012 INFORMATION)

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As of and for the Year Ended 31 December 2013
(Convenience Translation of Consolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

4 February 2014

This report contains "Independent Auditors' Report" comprising 2 pages and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 129 pages.

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

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

Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası A.Ş.

We have audited the consolidated balance sheet of Türkiye Sınai Kalkınma Bankası A.Ş. ("the Bank") and its subsidiaries (collectively "the Group") as of 31 December 2013 and the related consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' Responsibility for the Financial Statements

The Board of Directors of the Bank is responsible for the establishment of an internal control system, selection and application of appropriate accounting policies for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" published in the Official Gazette dated 1 November 2006 and numbered 26333 and Turkish Accounting Standards, Turkish Financial Reporting Standards and other regulations, explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency (BRSA) and declarations by the Banking Regulation and Supervision Board, free of material misstatement, whether due to fraud or error, that could lead to false information within.

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 the "Regulation on Authorization and Activities of Institutions to Perform Independent Audit at Banks" published on the Official Gazette dated 1 November 2006 and numbered 26333 and International Standards on Auditing. We planned and conducted our audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Our audit includes using the audit techniques for the purpose of obtaining evidence supporting the amounts and disclosures in the financial statements. The selection of the audit techniques made in accordance with our professional judgment by taking the effectiveness of the controls over financial reporting into and assessing the appropriateness of the applied accounting policies. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion expressed below.

Opinion

In our opinion, based on our audit, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Sınai Kalkınma Bankası A.Ş. as of 31 December 2013 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with the prevailing accounting principles and standards as per the Articles 37 and 38 of (Turkish) Banking Law No: 5411 and other regulations, explanations and circulars on accounting and financial reporting principles announced by BRSA.

Istanbul,
4 February 2013

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik
Anonim Şirketi

Orhan Akova
Partner

Additional paragraph for convenience translation to English:

As explained in Section 3 Note I, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

TSKB

THE CONSOLIDATED FINANCIAL REPORT OF
TÜRKİYE SINAİ KALKINMA BANKASI A.Ş.
FOR THE YEAR END PERIOD ENDED 31 DECEMBER 2013

The consolidated financial report for the year end includes the following sections in accordance with "Communiqué on the Financial Statements and Related Explanation and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency:

- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON THE CORRESPONDING ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE OF THE GROUP WHICH IS UNDER CONSOLIDATION
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

The subsidiaries, associates and joint ventures, whose financial statements are consolidated within the framework of the reporting package, are as follows:

Subsidiaries	**Associates**
Yatırım Finansman Menkul Değerler A.Ş.	İş Finansal Kiralama A.Ş.
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.
	İş Faktoring A.Ş.

The accompanying consolidated financial statements and the explanatory footnotes and disclosures for the year end, unless otherwise indicated, are prepared in **thousands of Turkish Lira ("TRY")**, in accordance with the Communiqué on Bank's Accounting Practice and Maintaining Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, related communiqués and the Bank's records, and have been independently audited and presented as attached.

4 February 2014

Adnan BALİ	**Özcan TÜRKAKIN**	**Ömer ERYILMAZ**	**Mustafa GÖKTAŞ**
Chairman of Board of Directors	**Member of Board of Directors and General Manager**	**Executive Vice President In Charge of Financial Reporting**	**Head of Financial Control Department**

M. Baran TUNCER	**Kemal Serdar DIŞLI**	**Murat BİLGİÇ**
Member of Audit Committee	**Member of Audit Committee**	**Member of Audit Committee**

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname / Title : Mustafa Göktaş / Head of Financial Control Department
Telephone Number : (0212) 334 51 92
E-Mail Address : goktasm@tskb.com.tr

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SECTION SEVEN

Independent Auditors' Report

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

SECTION ONE

GENERAL INFORMATION

I. The Parent Bank's incorporation date, beginning statue, changes in the existing statue

Türkiye Sınai Kalkınma Bankası A.Ş. ("The Parent Bank") was established in accordance with the decision of President of the Republic of Turkey numbered 3/11203 on 12 May 1950. This decision was declared by T.R. Office of Prime Ministry Procedures Directorate Decision Management on 12 May 1950.

According to the classification set out in the Banking Law No: 5411, the statute of the Parent Bank is "Development and Investment Bank". The Parent Bank does not have the authority of "Accepting Deposit". Since the establishment date of the Parent Bank, there is no change in its "Development and Investment Bank" status.

II. Explanations regarding the Parent Bank's shareholding structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current year, if any and explanations on the controlling group of the Parent Bank

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power of the Parent Bank directly or indirectly, alone or together with other shareholders. Shareholders of the Parent Bank are as follows:

Current Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	650.001	50,00	650.001	-
T. Vakıflar Bankası T.A.O.	108.907	8,38	108.907	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	541.092	41,62	541.092	-
Total	**1.300.000**	**100,00**	**1.300.000**	**-**

Prior Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	550.001	50,00	550.001	-
T. Vakıflar Bankası T.A.O.	92.152	8,38	92.152	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	457.829	41,62	457.829	-
Physically Under Custody (Other Institutions and Individuals)	18	-	18	-
Total	**1.100.000**	**100,00**	**1.100.000**	**-**

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

III. Explanations regarding the chairman and the members of board of directors, audit committee, general manager and assistant general managers and their shares in the Parent Bank

The Chairman and The Members of Board of Directors:

Name Surname	Title (1)	Date of Appointment	Academic Background	Experience in Banking and Management
Adnan Bali	Chairman of the Board of Directors	15 April 2011	Undergraduate	28
Mehmet Şencan	Vice Chairman of the Board of Directors	7 June 2011	Undergraduate	26
Özcan Türkakın	Member of the Board of Directors and General Manager	31 January 2013	Postgraduate	30
Mustafa Baran Tuncer (2)	Member of the Board of Directors and Audit Committee	30 April 2008	Doctorate	34
Durmuş Yılmaz	Member of the Board of Directors	26 March 2012	Postgraduate	34
Ertan Burhanettin Kantar	Member of the Board of Directors	23 March 2005	Undergraduate	25
Murat Bilgiç (2)	Member of the Board of Directors and Audit Committee	23 March 2005	Postgraduate	23
Kemal Serdar Dişli (2)	Member of the Board of Directors and Audit Committee	25 May 2007	Undergraduate	26
Uygar Şafak Öğün	Member of the Board of Directors	2 April 2010	Postgraduate	19
Feridun Bilgin	Member of the Board of Directors	12 September 2012	Doctorate	17
Halil Aydoğan (3)	Member of the Board of Directors	20 December 2013	Undergraduate	37

General Manager and Vice Presidents:

Name Surname	Title / Area of Responsibility	Date of Appointment	Academic Background	Experience in Banking and Management
Özcan Türkakın	General Manager	31 January 2013	Postgraduate	30
A.Orhan Beşkök	Senior Vice President - Technical Services and Financial Institutions	24 January 2002	Postgraduate	31
Burak Akgüç	Vice President – Corporate Marketing and Project Finance	29 December 2004	Undergraduate	24
Ömer Eryılmaz	Vice President – Financial Control, Budget Planning and Investor Relations	27 January 2006	Undergraduate	28
Çiğdem İçel	Vice President – Treasury and Human Resources	27 January 2006	Undergraduate	24
Ufuk Bala Yücel	Vice President - Loans	25 December 2007	Undergraduate	27
B. Gökhan Çanakpınar	Vice President – Information Technology and Operation	10 January 2012	Undergraduate	24
Ece Börü (4)	Vice President– Enterprise Architecture	28 November 2013	Undergraduate	25
Hakan Aygen (4)	Vice President – Corporate Finance and Economic Research	28 Kasım 2013	Doctorate	24

(1) The shares of above directors in the Bank are symbolic.
(2) According to the Communiqué of CMB Serial: IV No:63 members of the Audit Committee are regarded as Independent Members of the Board of Directors.
(3) Yonca Koçak, the independent member of the Board of Directors, has resigned from her duty and in the Board of Directors meeting per decree no 2147 on 16 December 2013, Halil Aydoğan was elected to vacant position in accordance with article no.363 of Turkish Commercial Code.
(4) Ece Börü was appointed as Vice President of Enterprise Architecture department and Hakan Ülgen was appointed as Vice President of Corporate Finance and Economic Research department in the Board of Directors meeting per decree no 2145 on 28 November 2013.

According to the regulations on auditing in Articles 397-406 of the Turkish Commercial Code numbered 6102, Akis Bağımsız Denetim ve Serbest Muhasebeci ve Mali Müşavirlik A.Ş. has been elected as auditor between the years 2013-2015 and statutory auditor duties of M. Armağan Saraçoğlu and Hamide Esma Uygun Çelikten, who were current auditors of the Bank, ended on the General Meeting held on 26 March 2013.

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

IV. Information about the persons and institutions that have qualified shares in the Parent Bank

T. İş Bankası A.Ş. (İş Bank) Group owns the qualified shares that control the Parent Bank's capital directly or indirectly.

Current Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	650.001	50,00	650.001	-
T. Vakıflar Bankası T.A.O.	108.907	8,38	108.907	-
Under Custody at Merkezi Kayıt Kuruluşu Other Institutions and Individuals	541.092	41,62	541.092	-
Total	**1.300.000**	**100,00**	**1.300.000**	**-**

Prior Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	550.001	50,00	550.001	-
T. Vakıflar Bankası T.A.O.	92.152	8,38	92.152	-
Under Custody at Merkezi Kayıt Kuruluşu Other Institutions and Individuals	457.829	41,62	457.829	-
Physically Under Custody (Other Institutions and Individuals)	18	-	18	-
Total	**1.100.000**	**100,00**	**1.100.000**	**-**

V. Summary on the Parent Bank's functions and areas of activity

Türkiye Sınai Kalkınma Bankası A.Ş. is the first private investment and development bank which was established by the Council of Ministers resolution number of 3/11203 established in 1950 with the support of World Bank, T.R. Government, T.R. Central Bank and commercial banks. As per the articles of association published in the Official Gazette on 2 June 1950, the aim of the Parent Bank is to support all private sector investments but mostly industrial sectors, to help domestic and foreign capital owners to finance the new firms and to help the improvement of Turkish capital markets. The Parent Bank is succeeding its aims by financing, consulting, giving technical support and financial intermediary services. The Parent Bank, which operates as a non-deposit accepting bank, played a major role on manufacturing and finance sectors in every phase of the economic development of Turkey. The Parent Bank 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, the Parent Bank also continues to offer solutions with respect to the newest needs and client demands.

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

VI. Differences between the communiqué on preparation of consolidated financial statements of banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiaries and associates, TSKB Gayrimenkul Değerleme A.Ş., TSKB Gayrimenkul Danışmanlık A.Ş., Terme Metal Sanayi ve Ticaret A.Ş., Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. and Adana Hotel Project are not consolidated since they are not in scope of financial institutions according to related communiqué.

Türkiye Sınai Kalkınma Bankası A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340. The Parent Bank has no partnership share on banks and financial institutions, with shareholding of more than 10% and deducted from capital.

Yatırım Finansman Menkul Değerler A.Ş. :

Yatırım Finansman Menkul Değerler A.Ş. was established with the title of Yatırım Finansman A.Ş. and registered in Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. Title of the Company was changed into Yatırım Finansman Menkul Değerler A.Ş. by the announcement made in the Turkish Trade Registry Gazette No: 4762 on 2 April 1999. The Company's purpose is to perform capital market operations specified in the Company's main contract in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :

Core business of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The Company was established on 3 February 2006.

İş Finansal Kiralama A.Ş. :

İş Finansal Kiralama A.Ş. 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 1988. The Company's headquarters is located at Istanbul/Türkiye.

İş Faktoring A.Ş. :

İş Faktoring A.Ş., was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş with 78,23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. is to make long-term investments in companies existing 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/Türkiye.

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

VII. The existing or potential, actual or legal obstacle on the transfer of shareholder's equity between the Parent Bank and its subsidiaries or the reimbursement of liabilities

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Parent Bank and its subsidiaries. The Parent Bank charge or pay cost of the services according to the service agreements done between the Parent Bank and its subsidiaries. Dividend distribution from shareholders' equity is made according to related legal regulations.

Written policies of the Parent Bank related to compliance to publicly disclosed obligations of the Parent Bank and assessment of accuracy, frequency and compliance of mentioned disclosures

The Parent Bank Disclosure Policy approved by the meeting of the Board of Directors has entered into force on 28 February 2011. Compliance to public disclosure obligations, frequency of public disclosures and tools and methods used for public disclosures are explained in the disclosure policy of the Parent Bank accessible from the the Parent B corporate website.

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

			Audited Current Period 31 December 2013			Audited Prior Period 31 December 2012		
	ASSETS	**Note Ref.**	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	**CASH AND BALANCES WITH THE CENTRAL BANK**	(1)	**42.176**	**302.864**	**345.040**	**25.465**	**107.201**	**132.666**
II.	**FINANCIAL ASSETS AT F.V. THROUGH PROFIT AND LOSS (Net)**	(2)	**26.216**	**34.032**	**60.248**	**23.336**	**17.833**	**41.169**
2.1	Trading financial assets		26.216	34.032	60.248	23.336	17.833	41.169
2.1.1	Public sector debt securities		8.717	-	8.717	7.753	733	8.486
2.1.2	Share certificates		988	-	988	2.581	-	2.581
2.1.3	Derivative financial assets held for trading		6.655	34.032	40.687	6.143	17.100	23.243
2.1.4	Other marketable securities		9.856	-	9.856	6.859	-	6.859
2.2	Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1	Public sector debt securities		-	-	-	-	-	-
2.2.2	Share certificates		-	-	-	-	-	-
2.2.3	Other marketable securities		-	-	-	-	-	-
2.2.4	Loans		-	-	-	-	-	-
III.	**BANKS**	(3)	**9.971**	**411.333**	**421.304**	**377.261**	**62.814**	**440.075**
IV.	**MONEY MARKET PLACEMENTS**		**50**	**-**	**50**	**199**	**-**	**199**
4.1	Interbank money market placements		-	-	-	-	-	-
4.2	Istanbul Stock Exchange money market placements		50	-	50	-	-	-
4.3	Receivables from reverse repurchase agreements		-	-	-	199	-	199
V.	**FINANCIAL ASSETS AVAILABLE FOR SALE (Net)**	(4)	**2.594.992**	**378.066**	**2.973.058**	**2.407.613**	**474.649**	**2.882.262**
5.1	Share certificates		48.072	2.957	51.029	35.570	2.957	38.527
5.2	Public sector debt securities		1.996.493	332.811	2.329.304	2.127.232	342.798	2.470.030
5.3	Other marketable securities		550.427	42.298	592.725	244.811	128.894	373.705
VI.	**LOANS**	(5)	**2.195.193**	**6.853.905**	**9.049.098**	**1.696.982**	**5.117.237**	**6.814.219**
6.1	Loans		2.195.193	6.853.905	9.049.098	1.696.982	5.117.237	6.814.219
6.1.1	Loans to risk group of the Bank		119.048	170.979	290.027	105.631	129.431	235.062
6.1.2	Public sector debt securities		-	-	-	-	-	-
6.1.3	Other		2.076.145	6.682.926	8.759.071	1.591.351	4.987.806	6.579.157
6.2	Non performing loans		16.913	20.473	37.386	10.172	5.452	15.624
6.3	Specific provisions (-)		(16.913)	(20.473)	(37.386)	(10.172)	(5.452)	(15.624)
VII.	**FACTORING RECEIVABLES**		**-**	**-**	**-**	**-**	**-**	**-**
VIII.	**HELD TO MATURITY INVESTMENTS (Net)**	(6)	**-**	**-**	**-**	**-**	**-**	**-**
8.1	Public sector debt securities		-	-	-	-	-	-
8.2	Other marketable securities		-	-	-	-	-	-
IX.	**INVESTMENTS IN ASSOCIATES (Net)**	(7)	**236.634**	**-**	**236.634**	**211.572**	**-**	**211.572**
9.1	Accounted for under equity method		234.988	-	234.988	210.046	-	210.046
9.2	Unconsolidated associates		1.646		1.646	1.526	-	1.526
9.2.1	Financial investments		-	-	-	-	-	-
9.2.2	Non-financial investments		1.646	-	1.646	1.526	-	1.526
X.	**INVESTMENTS IN SUBSIDIARIES (Net)**	(8)	**847**	**-**	**847**	**847**	**-**	**847**
10.1	Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2	Unconsolidated non-financial subsidiaries		847	-	847	847	-	847
XI.	**ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)**	(9)	**10**	**-**	**10**	**10**	**-**	**10**
11.1	Consolidated under equity method		-	-	-	-	-	-
11.2	Unconsolidated		10	-	10	10	-	10
11.2.1	Financial subsidiaries		-	-	-	-	-	-
11.2.2	Non-financial subsidiaries		10	-	10	10	-	10
XII.	**LEASE RECEIVABLES (Net)**	(10)	**-**	**4.518**	**4.518**	**-**	**9.432**	**9.432**
12.1	Finance lease receivables		-	4.573	4.573	-	9.758	9.758
12.2	Operating lease receivables		-	-	-	-	-	-
12.3	Other		-	-	-	-	-	-
12.4	Unearned income (-)		-	(55)	(55)	-	(326)	(326)
XIII.	**DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES**	(11)	**-**	**-**	**-**	**-**	**-**	**-**
13.1	Fair value hedge		-	-	-	-	-	-
13.2	Cash flow hedge		-	-	-	-	-	-
13.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
XIV.	**TANGIBLE ASSETS (Net)**	(12)	**24.397**	**-**	**24.397**	**23.786**	**-**	**23.786**
XV.	**INTANGIBLE ASSETS (Net)**	(13)	**2.249**	**-**	**2.249**	**2.020**	**-**	**2.020**
15.1	Goodwill		1.005	-	1.005	1.005	-	1.005
15.2	Other		1.244	-	1.244	1.015	-	1.015
XVI.	**INVESTMENT PROPERTY (Net)**	(14)	**222.295**	**-**	**222.295**	**240.370**	**-**	**240.370**
XVII.	**TAX ASSET**	(15)	**18.896**	**-**	**18.896**	**8.629**	**-**	**8.629**
17.1	Current tax asset		-	-	-	2.986	-	2.986
17.2	Deferred tax asset		18.896	-	18.896	5.643	-	5.643
XVIII.	**ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)**	(16)	**-**	**-**	**-**	**-**	**-**	**-**
18.1	Assets held for sale		-	-	-	-	-	-
18.2	Assets of discontinued operations		-	-	-	-	-	-
XIX.	**OTHER ASSETS**	(17)	**34.386**	**46.186**	**80.572**	**33.790**	**16.272**	**50.062**
	TOTAL ASSETS		**5.408.312**	**8.030.904**	**13.439.216**	**5.051.880**	**5.805.438**	**10.857.318**

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

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

			Audited Current Period 31 December 2013			Audited Prior Period 31 December 2012		
	LIABILITIES	**Note Ref**	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	**DEPOSITS**	(1)	-	-	-	-	-	-
1.1	Deposits from Risk Group of the Bank		-	-	-	-	-	-
1.2	Other		-	-	-	-	-	-
II.	**DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING**	(2)	**7.277**	**50.580**	**57.857**	**1.565**	**19.432**	**20.997**
III.	**FUNDS BORROWED**	(3)	**74.275**	**9.050.762**	**9.125.037**	**142.819**	**6.886.786**	**7.029.605**
IV.	**MONEY MARKET BALANCES**		**1.609.973**	**246.231**	**1.856.204**	**1.265.318**	**237.310**	**1.502.628**
4.1	Interbank money market takings		-	-	-	247.991	19.458	267.449
4.2	Istanbul Stock Exchange money market takings		251.313	-	251.313	-	-	-
4.3	Funds provided under repurchase agreements	(3)	1.358.660	246.231	1.604.891	1.017.327	217.852	1.235.179
V.	**DEBT SECURITIES ISSUED (Net)**		-	-	-	-	-	-
5.1	Bills		-	-	-	-	-	-
5.2	Asset backed securities		-	-	-	-	-	-
5.3	Bonds		-	-	-	-	-	-
VI.	**FUNDS**		**946**	**5.008**	**5.954**	**1.909**	**7.836**	**9.745**
6.1	Borrower funds		946	5.008	5.954	1.909	7.836	9.745
6.2	Others		-	-	-	-	-	-
VII.	**MISCELLANEOUS PAYABLES**		**77.558**	**12.211**	**89.769**	**77.233**	**35.597**	**112.830**
VIII.	**OTHER LIABILITIES**	(4)	-	-	-	-	-	-
IX.	**FACTORING PAYABLES**		-	-	-	-	-	-
X.	**LEASE PAYABLES**	(5)	-	-	-	**6**	-	**6**
10.1	Finance lease payables		-	-	-	6	2	8
10.2	Operating lease payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred finance lease expenses (-)		-	-	-	-	(2)	(2)
XI.	**DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES**	(6)	-	-	-	-	-	-
11.1	Fair value hedge		-	-	-	-	-	-
11.2	Cash flow hedge		-	-	-	-	-	-
11.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
XII.	**PROVISIONS**	(7)	**155.577**	**1.865**	**157.442**	**140.173**	**-**	**140.173**
12.1	General loan loss provisions		96.583	-	96.583	77.247	-	77.247
12.2	Restructuring provisions		-	-	-	-	-	-
12.3	Reserve for employee benefits		8.676	-	8.676	8.986	-	8.986
12.4	Insurance technical reserves (Net)		-	-	-	-	-	-
12.5	Other provisions		50.318	1.865	52.183	53.940	-	53.940
XIII.	**TAX LIABILITY**	(8)	**22.660**	**-**	**22.660**	**33.207**	**-**	**33.207**
13.1	Current tax liability		22.660	-	22.660	33.207	-	33.207
13.2	Deferred tax liability		-	-	-	-	-	-
XIV.	**PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**	(9)	-	-	-	-	-	-
14.1	Held for sale		-	-	-	-	-	-
14.2	Discontinued operations		-	-	-	-	-	-
XV.	**SUBORDINATED LOANS**	(10)	**-**	**106.759**	**106.759**	**-**	**89.125**	**89.125**
XVI.	**SHAREHOLDERS' EQUITY**		**2.001.886**	**15.648**	**2.017.534**	**1.849.617**	**69.385**	**1.919.002**
16.1	Paid-in capital	(11)	1.300.000	-	1.300.000	1.100.000	-	1.100.000
16.2	Capital reserves		(1.925)	15.648	13.723	100.288	69.385	169.673
16.2.1	Share premium		388	-	388	388	-	388
16.2.2	Share cancellation profits		-	-	-	-	-	-
16.2.3	Marketable securities value increase fund	(11)	(11.607)	15.648	4.041	64.369	69.385	133.754
16.2.4	Tangible assets revaluation differences	(11)	8.920	-	8.920	35.157	-	35.157
16.2.5	Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6	Investment property revaluation differences		-	-	-	-	-	-
16.2.7	Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)		-	-	-	-	-	-
16.2.8	Hedging reserves (Effective portion)		-	-	-	-	-	-
16.2.9	Revaluation surplus on assets held for sale and discontinued operations		-	-	-	-	-	-
16.2.10	Other capital reserves		374	-	374	374	-	374
16.3	Profit reserves		262.400	-	262.400	195.793	-	195.793
16.3.1	Legal reserves	(11)	158.444	-	158.444	125.052	-	125.052
16.3.2	Statutory reserves		75.641	-	75.641	60.277	-	60.277
16.3.3	Extraordinary reserves	(11)	24.993	-	24.993	7.544	-	7.544
16.3.4	Other profit reserves		3.322	-	3.322	2.920	-	2.920
16.4	Profit or loss		365.889	-	365.889	369.263	-	369.263
16.4.1	Prior years' profit/loss		61.999	-	61.999	52.253	-	52.253
16.4.2	Current year profit/loss		303.890	-	303.890	317.010	-	317.010
16.5	Non-controlling interests	(12)	75.522	-	75.522	84.273	-	84.273
	TOTAL LIABILITIES AND EQUITY		**3.950.152**	**9.489.064**	**13.439.216**	**3.511.847**	**7.345.471**	**10.857.318**

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

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

			Audited Current Period 31 December 2013			Audited Prior Period 31 December 2012		
		Note Ref	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
A.	**OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)**		**2.828.429**	**7.103.261**	**9.931.690**	**1.642.823**	**5.350.160**	**6.992.983**
I.	**GUARANTEES AND COLLATERALS**	(1)	**505.921**	**947.499**	**1.453.420**	**290.755**	**921.802**	**1.212.557**
1.1	Letters of guarantee		505.921	509.466	1.015.387	286.530	349.238	635.768
1.1.1	Guarantees subject to State Tender Law		-	-	-	-	-	-
1.1.2	Guarantees given for foreign trade operations		-	-	-	-	-	-
1.1.3	Other letters of guarantee		505.921	509.466	1.015.387	286.530	349.238	635.768
1.2	Bank acceptances		-	-	-	-	-	-
1.2.1	Import letters of acceptance		-	-	-	-	-	-
1.2.2	Other bank acceptances		-	-	-	-	-	-
1.3	Letters of credit		-	438.033	438.033	-	572.564	572.564
1.3.1	Documentary letters of credit		-	438.033	438.033	-	572.564	572.564
1.3.2	Other letters of credit		-	-	-	-	-	-
1.4	Prefinancing given as guarantee		-	-	-	-	-	-
1.5	Endorsements		-	-	-	-	-	-
1.5.1	Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2	Other endorsements		-	-	-	-	-	-
1.6	Securities issue purchase guarantees		-	-	-	-	-	-
1.7	Factoring guarantees		-	-	-	-	-	-
1.8	Other guarantees		-	-	-	4.225	-	4.225
1.9	Other collaterals		-	-	-	-	-	-
II.	**COMMITMENTS**	(1)	**1.440.682**	**1.874.009**	**3.314.691**	**1.157.941**	**1.643.773**	**2.801.714**
2.1	Irrevocable commitments		1.097.288	363.653	1.460.941	466.541	22.102	488.643
2.1.1	Forward asset purchase and sales commitments		213.594	297.751	511.345	2.770	7.405	10.175
2.1.2	Forward deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3	Share capital commitment to associates and subsidiaries		-	-	-	120	-	120
2.1.4	Loan granting commitments		-	4.805	4.805	-	4.007	4.007
2.1.5	Securities underwriting commitments		-	-	-	-	-	-
2.1.6	Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7	Payment commitment for checks		-	-	-	-	-	-
2.1.8	Tax and fund liabilities from export commitments		-	-	-	-	-	-
2.1.9	Commitments for credit card expenditure limits		-	-	-	-	-	-
2.1.10	Commitments for promotions related with credit cards and banking activities		-	-	-	-	-	-
2.1.11	Receivables from short sale commitments		-	-	-	-	-	-
2.1.12	Payables for short sale commitments		-	-	-	-	-	-
2.1.13	Other irrevocable commitments		883.694	61.097	944.791	463.651	10.690	474.341
2.2	Revocable commitments		343.394	1.510.356	1.853.750	691.400	1.621.671	2.313.071
2.2.1	Revocable loan granting commitments		343.394	1.510.356	1.853.750	691.400	1.621.671	2.313.071
2.2.2	Other revocable commitments		-	-	-	-	-	-
III.	**DERIVATIVE FINANCIAL INSTRUMENTS**	(2)	**881.826**	**4.281.753**	**5.163.579**	**194.127**	**2.784.585**	**2.978.712**
3.1	Derivative financial instruments for hedging purposes		-	-	-	-	-	-
3.1.1	Fair value hedge		-	-	-	-	-	-
3.1.2	Cash flow hedge		-	-	-	-	-	-
3.1.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2	Held for trading transactions		881.826	4.281.753	5.163.579	194.127	2.784.585	2.978.712
3.2.1	Forward foreign currency buy/sell transactions		232.750	364.554	597.304	110.621	364.896	475.517
3.2.1.1	Forward foreign currency transactions-buy		213.289	81.192	294.481	55.432	182.456	237.888
3.2.1.2	Forward foreign currency transactions-sell		19.461	283.362	302.823	55.189	182.440	237.629
3.2.2	Swap transactions related to f.c. and interest rates		278.088	3.483.427	3.761.515	52.038	2.300.268	2.352.306
3.2.2.1	Foreign currency swaps-buy		195.646	427.251	622.897	37.968	318.374	356.342
3.2.2.2	Foreign currency swaps-sell		33.050	595.548	628.598	14.070	336.020	350.090
3.2.2.3	Interest rate swaps-buy		24.696	1.230.314	1.255.010	-	822.937	822.937
3.2.2.4	Interest rate swaps-sell		24.696	1.230.314	1.255.010	-	822.937	822.937
3.2.3	Foreign currency, interest rate and securities options		370.988	433.772	804.760	31.468	119.421	150.889
3.2.3.1	Foreign currency options-buy		187.344	205.442	392.786	15.734	43.896	59.630
3.2.3.2	Foreign currency options-sell		183.644	209.840	393.484	15.734	44.325	60.059
3.2.3.3	Interest rate options-buy		-	9.245	9.245	-	15.600	15.600
3.2.3.4	Interest rate options-sell		-	9.245	9.245	-	15.600	15.600
3.2.3.5	Securities options-buy		-	-	-	-	-	-
3.2.3.6	Securities options-sell		-	-	-	-	-	-
3.2.4	Foreign currency futures		-	-	-	-	-	-
3.2.4.1	Foreign currency futures-buy		-	-	-	-	-	-
3.2.4.2	Foreign currency futures-sell		-	-	-	-	-	-
3.2.5	Interest rate futures		-	-	-	-	-	-
3.2.5.1	Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2	Interest rate futures-sell		-	-	-	-	-	-
3.2.6	Other		-	-	-	-	-	-
B.	**CUSTODY AND PLEDGED SECURITIES (IV+V+VI)**		**26.254.023**	**94.633.754**	**120.887.777**	**5.378.889**	**70.139.115**	**75.518.004**
IV.	**ITEMS HELD IN CUSTODY**		**4.358.031**	**281.543**	**4.639.574**	**1.288.698**	**264.194**	**1.552.892**
4.1	Customers’ securities held		-	-	-	8.619	-	8.619
4.2	Investment securities held in custody		2.929.287	281.543	3.210.830	297.966	264.194	562.160
4.3	Checks received for collection		-	-	-	-	-	-
4.4	Commercial notes received for collection		-	-	-	-	-	-
4.5	Other assets received for collection		-	-	-	-	-	-
4.6	Assets received for public offering		-	-	-	-	-	-
4.7	Other items under custody		517	-	517	3.335	-	3.335
4.8	Custodians		1.428.227	-	1.428.227	978.778	-	978.778
V.	**PLEDGED ITEMS**		**11.540.554**	**57.554.012**	**69.094.566**	**3.136.693**	**45.668.955**	**48.805.648**
5.1	Marketable securities		392.936	2.677.590	3.070.526	2.935	1.208.830	1.211.765
5.2	Guarantee notes		86.094	1.588.476	1.674.570	53.398	1.300.783	1.354.181
5.3	Commodity		-	-	-	-	-	-
5.4	Warranty		-	-	-	-	-	-
5.5	Real estates		416.410	20.897.816	21.314.226	90.594	16.092.349	16.182.943
5.6	Other pledged items		10.645.114	32.390.130	43.035.244	2.989.766	27.066.993	30.056.759
5.7	Pledged items-depository		-	-	-	-	-	-
VI.	**ACCEPTED BILLS OF EXCHANGE AND COLLATERALS**		**10.355.438**	**36.798.199**	**47.153.637**	**953.498**	**24.205.966**	**25.159.464**
	TOTAL OFF BALANCE SHEET ITEMS (A+B)		**29.082.452**	**101.737.015**	**130.819.467**	**7.021.712**	**75.489.275**	**82.510.987**

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

TÜRKİYE SINAİ KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

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

		Note Ref.	Audited Current Period 1 January 2013 – 31 December 2013	Audited Prior Period 1 January 2012 – 31 December 2012
I.	**INTEREST INCOME**	(1)	**657.490**	**613.037**
1.1	Interest on loans		393.569	332.958
1.2	Interest received from reserve deposits		-	-
1.3	Interest received from banks		20.236	23.168
1.4	Interest received from money market placements		13.997	6.857
1.5	Interest received from marketable securities portfolio		229.151	248.776
1.5.1	Financial assets held for trading		1.149	3.756
1.5.2	Financial assets at fair value through profit and loss		-	-
1.5.3	Available-for-sale financial assets		228.002	237.327
1.5.4	Investments held-to-maturity		-	7.693
1.6	Finance lease income		306	1.066
1.7	Other interest income		231	212
II.	**INTEREST EXPENSES**	(2)	**(175.902)**	**(188.193)**
2.1	Interest on deposits		-	-
2.2	Interest on funds borrowed		(96.217)	(93.343)
2.3	Interest on money market borrowings		(79.638)	(94.733)
2.4	Interest on securities issued		-	-
2.5	Other interest expense		(47)	(117)
III.	**NET INTEREST INCOME (I - II)**		**481.588**	**424.844**
IV.	**NET FEES AND COMMISSIONS INCOME**		**27.867**	**26.520**
4.1	Fees and commissions received		32.445	29.842
4.1.1	Non-cash loans		7.407	10.115
4.1.2	Other		25.038	19.727
4.2	Fees and commissions paid		(4.578)	(3.322)
4.2.1	Non-cash loans		(858)	(1.021)
4.2.2	Other		(3.720)	(2.301)
V.	**DIVIDEND INCOME**	(3)	**15.715**	**6.014**
VI.	**NET TRADING INCOME**	(4)	**(24.735)**	**26.309**
6.1	Securities trading gains/ (losses)		4.391	2.818
6.2	Derivative financial instruments gains/losses		(46.359)	48.739
6.3	Foreign exchange gains/losses (net)		17.233	(25.248)
VII.	**OTHER OPERATING INCOME**	(5)	**25.541**	**32.260**
VIII.	**TOTAL OPERATING INCOME (III+IV+V+VI+VII)**		**525.976**	**515.947**
IX.	**PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)**	(6)	**(47.230)**	**(34.595)**
X.	**OTHER OPERATING EXPENSES (-)**	(7)	**(140.528)**	**(100.218)**
XI.	**NET OPERATING INCOME/(LOSS) (VIII-IX-X)**		**338.218**	**381.134**
XII.	**AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER**		**-**	**-**
XIII.	**PROFIT / (LOSS) ON EQUITY METHOD**		**31.975**	**20.271**
XIV.	**GAIN / (LOSS) ON NET MONETARY POSITION**		**-**	**-**
XV.	**PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+XII+XIII+XIV)**	(8)	**370.193**	**401.405**
XVI.	**TAX PROVISION FOR CONTINUED OPERATIONS (±)**	(9)	**(75.039)**	**(76.254)**
16.1	Provision for current income taxes		(58.256)	(94.286)
16.2	Provision for deferred taxes		(16.783)	18.032
XVII.	**NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)**	(10)	**295.154**	**325.151**
XVIII.	**INCOME ON DISCONTINUED OPERATIONS**		**-**	**-**
18.1	Income on assets held for sale		-	-
18.2	Income on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
18.3	Income on other discontinued operations		-	-
XIX.	**LOSS FROM DISCONTINUED OPERATIONS (-)**		**-**	**-**
19.1	Loss from assets held for sale		-	-
19.2	Loss on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
19.3	Loss from other discontinued operations		-	-
XX.	**PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)**		**-**	**-**
XXI.	**TAX PROVISION FOR DISCONTINUED OPERATIONS(±)**		**-**	**-**
21.1	Provision for current income taxes		-	-
21.2	Provision for deferred taxes		-	-
XXII.	**NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)**		**-**	**-**
XXIII.	**NET PROFIT/LOSS (XVII+XXII)**	(11)	**295.154**	**325.151**
23.1	Group’s profit / loss		303.890	317.010
23.2	Minority shares		(8.736)	8.141
	Earnings / (losses) per share		0,227	0,250

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

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

	PROFIT AND LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDER'S EQUITY	Audited Current Period 1 January 2013– 31 December 2013	Audited Prior Period 1 January 2012 – 31 December 2012
I.	**ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS**	**(152.812)**	**144.877**
II.	**TANGIBLE ASSETS REVALUATION DIFFERENCES**	-	-
III.	**INTANGIBLE ASSETS REVALUATION DIFFERENCES**	-	-
IV.	**TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES**	-	-
V.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion of fair value differences)**	-	-
VI.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)**	-	-
VII.	**EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS**	-	-
VIII.	**OTHER PROFIT/LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS**	**(6.537)**	**(230)**
IX.	**DEFERRED TAX OF VALUATION DIFFERENCES**	**30.036**	**(28.053)**
X.	**NET PROFIT/LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)**	**(129.313)**	**116.594**
XI.	**CURRENT YEAR PROFIT/LOSS**	**295.154**	**325.151**
11.1	Net changes in fair value of securities (Recycled to Profit/Loss)	6.423	(756)
11.2	Reclassification of and recycling derivatives accounted for cash flow hedge purposes to Income Statement	-	-
11.3	Recycling hedge of net investments in foreign operations to Income Statement	-	-
11.4	Other	288.731	325.907
XII.	**TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)**	**165.841**	**441.745**

TÜRKİYE SINAI KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	CHANGES IN SHAREHOLDER'S EQUITY	Note Ref.	Paid in Capital	Effect of Inflation on Paid in Capital	Share Premiums	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit / Loss	Prior Period Net Profit / Loss	Marketable Security Revaluation Differences	Tangible and Intangible Assets Revaluation Differences	Bonus Shares Obtained from Associates, Subs and Jointly Controlled Entities	Hedging Reserves	Revaluation Surplus on Assets Held for sale and on Disc. Operations	Shareholders' Equity Before Non-controlling Interest	Non-Controlling Interest	Total Shareholders' Equity
	Prior Period – 31 December 2012																			
I.	**Opening Balance**		**800.000**	**374**	**413**	-	**97.975**	**47.510**	**152.167**	**2.920**	-	**310.617**	**17.160**	**31.174**	-	-	-	**1.460.310**	**96.791**	**1.557.101**
II.	**Adjustments In Accordance With TAS 8**																			
2.1	Effect Of Correction Of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	Effect Of Changes In Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**New Balance (I+II)**		**800.000**	**374**	**413**	-	**97.975**	**47.510**	**152.167**	**2.920**	-	**310.617**	**17.160**	**31.174**	-	-	-	**1.460.310**	**96.791**	**1.557.101**
	Changes During The Period																			
IV.	**Increases/Decreases Related to Merger**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Marketable Security Revaluation Differences**		-	-	-	-	-	-	-	-	-	-	**116.594**	-	-	-	-	**116.594**	**15**	**116.609**
VI.	**Hedging Reserves (Effective Portion)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.1	Cash-Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	Hedge Of Net Investment In Foreign Operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Tangible Assets Revaluation Differences**		-	-	-	-	-	-	-	-	-	**(3.983)**	-	**3.983**	-	-	-	-	-	-
VIII.	**Intangible Assets Revaluation Differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Bonus Shares Obtained From Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Foreign Exchange Differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Disposal Of Assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Reclassification Of Assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	**Effect Of Change In Equities Of Associates On Bank's Equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Capital increase**		**300.000**	-	-	-	-	-	**(163.000)**	-	-	**(137.000)**	-	-	-	-	-	-	-	-
14.1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
14.2	Internal sources		300.000	-	-	-	-	-	(163.000)	-	-	(137.000)	-	-	-	-	-	-	-	-
XV.	**Share Premium**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	**Effect of inflation on paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	**Other**		-	-	**(25)**	-	**(859)**	-	**(5.221)**	-	-	**(2.601)**	-	-	-	-	-	**(8.706)**	**(20.674)**	**(29.380)**
IX.	**Period net income**		-	-	-	-	-	-	-	-	**317.010**	-	-	-	-	-	-	**317.010**	**8.141**	**325.151**
XX.	**Profit Distribution**		-	-	-	-	**27.936**	**12.767**	**23.598**	-	-	**(114.780)**	-	-	-	-	-	**(50.479)**	-	**(50.479)**
20.1	Dividends distributed		-	-	-	-	-	-	-	-	-	(50.479)	-	-	-	-	-	(50.479)	-	(50.479)
20.2	Transfers to reserves		-	-	-	-	27.936	12.767	23.598	-	-	(64.301)	-	-	-	-	-	-	-	-
20.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Closing Balance		**1.100.000**	**374**	**388**	-	**125.052**	**60.277**	**7.544**	**2.920**	**317.010**	**52.253**	**133.754**	**35.157**	-	-	-	**1.834.729**	**84.273**	**1.919.002**
	Current Period – 31 December 2013																			
I.	**Opening Balance**		**1.100.000**	**374**	**388**	-	**125.052**	**60.277**	**7.544**	**2.920**	-	**369.263**	**133.754**	**35.157**	-	-	-	**1.834.729**	**84.273**	**1.919.002**
II.	**Increase / Decrease related to merger**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**Marketable securities value increase fund**		-	-	-	-	-	-	-	-	-	-	**(129.713)**	-	-	-	-	**(129.713)**	**(13)**	**(129.726)**
IV.	**Hedging (Effective portion)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1	Cash-flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedge of net investment in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Tangible assets revaluation differences**		-	-	-	-	-	-	**28.379**	-	-	**(2.142)**	-	**(26.237)**	-	-	-	-	-	-
VI.	**Intangible assets revaluation differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	**Foreign exchange differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Disposal of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Reclassification of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Effect of change in equities of associates on bank's equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Capital increase**	**(1)**	**200.000**	-	-	-	-	-	**(32.000)**	-	-	**(168.000)**	-	-	-	-	-	-	-	-
12.1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Internal sources		200.000	-	-	-	-	-	(32.000)	-	-	(168.000)	-	-	-	-	-	-	-	-
XIII.	**Share issuance**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	**Effect of inflation on paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Other**		-	-	-	-	-	-	-	**402**	-	-	-	-	-	-	-	**402**	**(2)**	**400**
XVII.	**Period net income**		-	-	-	-	-	-	-	-	**303.890**	-	-	-	-	-	-	**303.890**	**(8.736)**	**295.154**
XVIII.	**Profit distribution**		-	-	-	-	**33.392**	**15.364**	**21.070**	-	-	**(137.122)**	-	-	-	-	-	**(67.296)**	-	**(67.296)**
18.1	Dividends distributed		-	-	-	-	-	-	-	-	-	(67.296)	-	-	-	-	-	(67.296)	-	(67.296)
18.2	Transfers to reserves		-	-	-	-	33.392	15.364	21.070	-	-	(69.826)	-	-	-	-	-	-	-	-
18.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Closing Balance		**1.300.000**	**374**	**388**	-	**158.444**	**75.641**	**24.993**	**3.322**	**303.890**	**61.999**	**4.041**	**8.920**	-	-	-	**1.942.012**	**75.522**	**2.017.534**

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

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

		Notes	Audited Current Period 31 December 2013	Audited Prior Period 31 December 2012
A.	**CASH FLOWS FROM BANKING OPERATIONS**			
1.1	**Operating profit before changes in operating assets and liabilities**		**546.291**	**215.487**
1.1.1	Interest received		741.650	492.247
1.1.2	Interest paid		(174.523)	(191.485)
1.1.3	Dividends received		9.777	6.014
1.1.4	Fees and commissions received		32.445	29.842
1.1.5	Other income	(1)	43.281	85.850
1.1.6	Collections from previously written off loans		2.078	7.806
1.1.7	Payments to personnel and service suppliers		(94.641)	(75.962)
1.1.8	Taxes paid		(70.503)	(78.649)
1.1.9	Others	(1)	56.727	(60.176)
1.2	**Changes in operating assets and liabilities**		**(149.419)**	**(18.665)**
1.2.1	Net (increase) decrease in financial assets		(2.005)	52.696
1.2.2	Net (increase) decrease in financial assets at fair value through profit or loss		-	-
1.2.3	Net (increase) decrease in due from banks and other financial institutions		-	-
1.2.4	Net (increase) decrease in loans		(1.444.233)	(1.012.416)
1.2.5	Net (increase) decrease in other assets	(1)	(214.916)	116.869
1.2.6	Net increase (decrease) in bank deposits		-	-
1.2.7	Net increase (decrease) in other deposits		-	-
1.2.8	Net increase (decrease) in funds borrowed		1.181.629	723.160
1.2.9	Net increase (decrease) in matured payables		-	-
1.2.10	Net increase (decrease) in other liabilities	(1)	330.106	101.026
I.	**Net cash provided by/(used in) banking operations**		**396.872**	**196.822**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
II.	**Net cash provided by/(used in) investing activities**		**(315.248)**	**(211.971)**
2.1	Cash paid for purchase of entities under common control, associates and subsidiaries	(2)	(120)	(420)
2.2	Cash obtained from sale of entities under common control, associates and subsidiaries	(3)	-	-
2.3	Fixed asset purchases	(2)	(17.258)	(13.613)
2.4	Fixed asset sales	(3)	1.605	3.865
2.5	Cash paid for purchase of financial assets available for sale		(1.297.455)	(297.030)
2.6	Cash obtained from sale of financial assets available for sale		998.610	-
2.7	Cash paid for purchase of investment securities		-	-
2.8	Cash obtained from sale of investment securities (*)		-	95.787
2.9	Others	(2)	(630)	(560)
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
III.	**Net cash provided by/(used in) financing activities**		**(67.296)**	**(50.481)**
3.1	Cash obtained from funds borrowed and securities issued		-	-
3.2	Cash used for repayment of funds borrowed and securities issued		-	(2)
3.3	Capital increase		-	-
3.4	Dividends paid		(67.296)	(50.479)
3.5	Payments for finance leases		-	-
3.6	Other		-	-
IV.	**Effect of change in foreign exchange rate on cash and cash equivalents**	(1)	**17.280**	**(2.400)**
V.	**Net increase / (decrease) in cash and cash equivalents**		**31.608**	**(68.030)**
VI.	**Cash and cash equivalents at beginning of the period**	(4)	**466.659**	**534.689**
VII.	**Cash and cash equivalents at end of the period**	(4)	**498.267**	**466.659**

(*) Prior period amount comprises of the Parent Bank's held to maturity investment that was redeemed on 15 February 2012.

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

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

		Audited Current Period 31 December 2013 (*)	Audited Prior Period 31 December 2012
I.	**DISTRIBUTION OF CURRENT YEAR INCOME (**)**		
1.1	CURRENT YEAR INCOME	**400.894**	**382.793**
1.2	TAXES AND DUTIES PAYABLE	(74.837)	(75.529)
1.2.1	Corporate Tax (Income tax)	(55.093)	(94.286)
1.2.2	Income withholding tax	-	-
1.2.3	Other taxes and duties	(19.744)	18.757
A.	**NET INCOME FOR THE YEAR (1.1-1.2)**	**326.057**	**307.264**
1.3	PRIOR YEARS LOSSES (-)(*)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	15.363
1.5	OTHER STATUTORY RESERVES (-)	-	15.364
B.	**NET PROFIT AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]**	**326.057**	**276.537**
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	66.000
1.6.1	To owners of ordinary shares	-	66.000
1.6.2	To owners of preferred shares	-	-
1.6.3	To owners of preferred shares (pre-emptive rights)	-	-
1.6.4	To profit sharing bonds	-	-
1.6.5	To holders of profit and loss sharing certificates	-	-
1.7	DIVIDENDS TO PERSONNEL (-)	-	6.253
1.8	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	1.043
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	162.000
1.9.1	To owners of ordinary shares	-	162.000
1.9.2	To owners of preferred shares	-	-
1.9.3	To owners of preferred shares (pre-emptive rights)	-	-
1.9.4	To profit sharing bonds	-	-
1.9.5	To holders of profit and loss sharing certificates	-	-
1.10	SECOND LEGAL RESERVES (-)	-	18.029
1.11	STATUTORY RESERVES (-)	-	-
1.12	GENERAL RESERVES	-	21.070
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	2.142
II.	**DISTRIBUTION OF RESERVES**	-	
2.1	APPROPRIATED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1	To owners of ordinary shares	-	-
2.3.2	To owners of preferred shares	-	-
2.3.3	To owners of preferred shares (pre-emptive rights)	-	-
2.3.4	To profit sharing bonds	-	-
2.3.5	To holders of profit and loss sharing certificates	-	-
2.4	DIVIDENDS TO PERSONNEL (-)	-	-
2.5	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
III.	**EARNINGS PER SHARE**		
3.1	TO OWNERS OF ORDINARY SHARES	**326.057**	**307.264**
3.2	TO OWNERS OF ORDINARY SHARES (%)	25,08	27,93
3.3	TO OWNERS OF PRIVILEGED SHARES	-	-
3.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-
IV.	**DIVIDEND PER SHARE**		
4.1	TO OWNERS OF ORDINARY SHARES	-	288.000
4.2	TO OWNERS OF ORDINARY SHARES (%)	-	20,73
4.3	TO OWNERS OF PRIVILAGED SHARES	-	-
4.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(*) Since the Board of Directors has not yet prepared any proposal for profit distribution relating to the year 2013, profit available for distribution for the year 2013 was presented only.
(**) According to legislation, companies in Turkey do not make consolidated profit distribution. In this context, profit distribution is based on unconsolidated financial statements.

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SECTION THREE

ACCOUNTING POLICIES

I. Basis of presentation

I.a Presentation of consolidated financial statements and notes to the consolidated financial statements according to Turkish Accounting Standards and Banking Accounting Regulations and Safeguarding of Documents

As prescribed in the Article 37 and 38 of the Banking Act No. 5411, the Parent Bank prepares its financial statements and underlying documents in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" and Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards and other regulations, explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency.

Amounts in the consolidated financial statements, the underlying explanations and disclosures are expressed in Thousands of Turkish Lira unless otherwise stated.

Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position and consolidated results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

I.b The valuation principles used in the preparation of the financial statements

The accounting rules and the valuation principles used in the preparation of the financial statements were implemented as stated in the Turkish Accounting Standards and related regulations, explanations and circulars on accounting and financial reporting principles announced by the BRSA. These accounting policies and valuation principles are explained in the below notes through II to XXIII.

I.c The accounting policies for the correct understanding of the financial statements

The following accounting policies that applied according to BRSA regulations and TAS for the correct understanding of the financial statements and valuation principles used in preparation of the financial statements are presented in more detail below.

I.d In preparing the consolidated financial statements, items which different accounting policies adopted and their ratio on total of related consolidated financial statement

There is no different accounting policy used in consolidated financial statements.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

II. Explanations on usage strategy of financial assets and foreign currency transactions

The main sources of the funds of the Group have variable interest rates. The financial balances are monitored frequently and constant and variable interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the Parent Bank have the flexibility of reflecting the changes in market interest rates to customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The Group liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors' expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Parent Bank.

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. When taking positions, the Parent Bank's unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

The Group's strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency available for sale securities:

A great majority of foreign currency available for sale securities are financed with foreign currency resources. Accordingly, the expected depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to eliminate the risk exposure of cross currency rates.

To mitigate the interest rate risk, a balanced asset composition is established in compliance with the structure of fixed and variable rate funding resources.

The hedging strategies for other foreign exchange risk exposures:

A stable foreign exchange position strategy is implemented: To be secured from cross currency risk, the current foreign exchange position is taken by considering a specific basket of foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

III. Information about the Parent Bank and its subsidiaries and associates subject to consolidation

Türkiye Sınai Kalkınma Bankası A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Faktoring A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340. The Parent Bank and the entities included in the consolidation are referred to as "the Group" in this report.

The financial statements of the subsidiaries and associates, which were prepared in accordance with the prevailing principles and rules regarding financial accounting and reporting standards in the Turkish Commercial Code and/or Financial Leasing Law and/or communiqués of the Capital Markets Board of Turkey ("CMB"), are duly adjusted in order to present their financial statements in accordance with Turkish Accounting Standards and Turkish Financial Reporting Standards.

When there are differences between the accounting policies of the subsidiaries and the Parent Bank, the financial statements are adjusted in accordance with the principle of materiality. The financial statements of the subsidiaries are prepared as of 31 December 2013.The transactions and balances between the consolidated entities and the Parent Bank are eliminated.

Yatırım Finansman Menkul Değerler A.Ş. :

Yatırım Finansman Menkul Değerler A.Ş. was established with the title of Yatırım Finansman A.Ş. and registered in Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. Title of the Company was changed into Yatırım Finansman Menkul Değerler A.Ş. by the announcement made in the Turkish Trade Registry Gazette No: 4762 on 2 April 1999. The Company's purpose is to perform capital market operations specified in the Company's main contract in accordance with the Capital Market Law and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :

Core business of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The Company was established on 3 February 2006.

İş Finansal Kiralama A.Ş. :

İş Finansal Kiralama A.Ş. 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 1988. The Company's headquarters is located at İstanbul/Türkiye.

İş Faktoring A.Ş. :

İş Faktoring A.Ş., was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş with 78,23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. is to make long-term investments in companies existing in Turkey or to be established in Turkey, having a development potential and are in need of financing. The company's headquarter is in İstanbul/Turkey.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

IV. Explanations on forward and option contracts and derivative instruments

The Parent Bank is exposed to financial risk which depend on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Group are foreign currency forwards, swaps, futures trading, futures and option agreements.

The derivative instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. Some of the derivative instruments, although economic hedges, are accounted for as trading transactions since they are not qualified to be hedging instruments as per "Financial Instruments: Recognition and Measurement" ("TAS 39"). Realized gains or losses are reflected in the income statement on these derivative instruments.

According to Capital Markets Board ("CMB") legislation, Intermediary Institution warrants are capital market instruments that give the holder the right, but not the obligation, to buy or to sell an underlying asset at a specified price on or before a predetermined date where such right is exercised by registered deliver or cash settlement and these warrants are called securitized derivative transactions. In this context, the Bank that issued warrants on foreign currencies, has accounted the costs of issued warrant on liabilities. Warrants are valued on a daily basis over the market value created by the market maker and valuation differences are recorded in the income statement. On withdrawal of the issued warrants, the balance is netted-off with the cost on the liabilities and gain/losses are associated with the income statement. On the other hand, issued warrant is recorded on the statement of off-balance sheet with its nominal value.

V. Explanations on interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value). In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

VI. Explanations on fees and commission income and expenses

Fees and commissions received from cash loans, that are not an integral part of the effective interest rate, and fees for various banking services are recorded as income when collected. Fees and commissions paid for the funds borrowed, which are not integral parts of the effective interest rate of the funds borrowed, are recorded as expense on the date of the payment. As of 31 December 2013, all other income and expenses, fee and commission income and expenses, including commissions received from non-cash loans are recorded on an accrual basis.

VII. Explanations on financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments constitute the both of the Group's trading activities and operations. Risks related with these instruments constitutes majority of total risks. Financial instruments affect liquidity, market, and credit risks on the Group's balance sheet in all respects. The Group trades these instruments on behalf of its customers and on its own behalf.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

Basically, financial assets create the majority of the commercial activities and operations of the Group. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Settlement date accounting requires (a) accounting of the asset when acquired by the institution, and (b) disposing of the asset out of the balance sheet on the date settled by the institution; and accounting of gain or loss on disposal.

In case of application of settlement date accounting, the entity accounts for the changes that occur in the fair value of the asset in the period between commercial transaction date and settlement date as in the assets that the entity settles.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets.

Fair value differences are not accounted for assets presented at cost or amortized cost; gain or loss of financial assets at fair value through profit and loss are reflected in the income statement, gain or loss of available for sale assets are accounted for under the shareholders' equity.

The methods and assumptions used in determining the reasonable estimated values of all of the financial instruments are explained below.

Cash, Banks and Other Financial Institutions:

Cash and cash equivalents comprise cash in vault and foreign currency cash. Foreign currency cash and foreign currency deposits are reflected to balance sheet in TL which is translated in accordance with prevalent exchange rate on reporting date. The book values of these assets approximate their fair values.

Marketable Securities:

The Group classifies its marketable securities in 3 groups:

Financial assets at fair value through profit and loss: These transactions are classified in two categories. (i) Trading securities for the purposes of short term profit taking through sale or buying back in a near future. (ii) The financial assets classified at inception as financial assets at fair value through profit or loss by the Group. The Group uses such classification above when permitted or for the purposes of providing a more proper disclosure.

In this category, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of securities that are traded in an active market are determined based on quoted prices or current market prices.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are booked under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is booked under the "Gains on Securities Trading" account. If the fair value is under the amortized cost, the negative difference is booked under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

Available for sale financial assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income. After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in "Marketable Securities Value Increase Fund" under the equity. All unquoted available for sale stocks are recorded by considering impairment, since respective fair values cannot be reliably measured. At the disposal of available for sale financial assets, value increases/decreases that are recorded in the securities value increase fund under equity are transferred to income statement.

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any. Interest income earned from held-to-maturity investments is recognized as interest income on income statement.

As of the reporting date, the Group calculated internal rate of return of the CPI indexed marketable securities considering expected inflation index of future cash flows. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

Loans:

Loans are financial assets which have fixed payment terms and are not traded.

Loans are initially recognized at cost and measured at amortized cost by using effective interest rate. The duties, charges and other expenses paid for the collaterals obtained against loans are accepted as transaction costs and reflected to customers.

Turkish Lira ("TL") cash loans are composed of foreign currency indexed loans and working capital loans; foreign currency ("FC") cash loans are composed of investment loans, export financing loans and working capital loans.

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

Provision is set for the loans that may be doubtful and the amount is charged in the current period income statement as well as their classification to non-performing loans as per the related regulations. The collections made related to loans including those on non-performing loans for which provision is made in the current period are recorded in "Provision for Loans and Other Receivables (including received from Loans and receivables with doubtful collectability) " and "Interest Received from Non-performing Loans" account.

Releases of loan loss provisions are recorded by reversing the provisions booked during the year and the collections made related to loan losses previously accounted for are recorded to collections related to the prior period expenses.

VIII. Explanations on impairment on financial assets

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

A financial asset or a financial asset group incurs impairment loss only if there is an objective evidence related to the occurrence of one or more than one event ("loss event") after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized.

Loans are classified and followed in line with the provisions of the "Regulation on Identification of Loans and Other Receivables and Provisioning against Them", published in the Official Gazette No: 26333 dated 1 November 2006. Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement. The provisions, which are released within the same year, are credited to the "Provision Expenses" account and the released parts of the provisions from the previous years are transferred to and recognized in the "Other Operating Income" account.

Other than specific provisions, the Parent Bank provides "general provision" for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VIII. Explanations on impairment on financial assets (continued)

Subsequent to the change in the regulation on "Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" published in the Official Gazette No. 27947 dated 28 May 2011; in case of the extension of the payment plan of the loans which are followed under loans and receivables, the general loan loss provision ratio for standard and for the first group loans and receivables should not be less than 5 times of the general provision ratio and for the second group loans and receivables should not be less than 2,5 times of the general provision ratio.

As a consequence of the regulation published in Official Gazette No. 28789 dated 8 October 2013 amending the "Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves", for the banks, of which the consumer loans exceed twenty five percent of total loans, general provision ratio is four percent for consumer loans which are followed under standard loans and receivables except housing loans; and is eight percent for the loans under close monitoring except housing loans. Since the consumer loans of the Parent Bank are composed of personnel loans as of 31 December 2013 and do not exceed the ratios mentioned above, additional general loan loss provision has not been calculated. As mentioned in the regulations on the same date, Banks could apply general loan loss provision ratios is zero percent for cash and non-cash export loans which are followed standard loans; and is five per mille and one per milee for cash and non-cahs loans respectively which is used to small and medium size enterprise. The Parent Bank has started to calculate general loan loss provision thereby using in question ratios after published date of the regulations.

IX. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset when the Group has a legally enforceable right to set off, and when the Group has the intention of collecting or paying the net amount of related assets and liabilities or when the Group has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

X. Explanations on sales and repurchase agreements and lending of securities

Funds provided under repurchase agreements are accounted under "Funds Provided under Repurchase Agreements-TL" and "Funds Provided under Repurchase Agreements-FC" accounts.

The repurchase agreements of the Group are based on the Eurobonds issued by Republic of Turkey Undersecretariat of Treasury and government bonds. In the financial statements, the government bonds and treasury bills sold to customers under repurchase agreements are classified under securities held for trading, available for sale and held to maturity depending on the portfolio they are originally included in and are valued according to the valuation principles of the related portfolios. The income and expenses from these transactions are reflected to the interest income and interest expense accounts in the income statement. Receivables from reverse repurchase agreements are recorded in "Receivables from Reverse Repurchase Agreements" account in the balance sheet.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XI. Explanations on assets held for sale and discontinued operations

Assets held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell. Held for sale assets are not amortized and presented separately in the financial statements. In order to classify an asset as held for sale, only when the sale is highly probable, experienced quite often and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale. Highly saleable condition requires a plan by the management regarding the sale of the asset to be disposed (or else the group of assets), together with an active program for determination of buyers as well as for the completion of the plan. Also the asset (or else the group of assets) shall be actively marketed in conformity with its fair value. On the other hand, the sale is expected to be journalized as a completed sale within one year after the classification date; and the necessary transactions and procedures to complete the plan should demonstrate the fact that the possibility of making significant changes or cancelling the plan is low. Various circumstances and conditions could extend the completion period of the sale more than one year. If such delay arises from any events and conditions beyond the control of the entity and if there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or else group of assets) are continued to be classified as assets held for sale (or else group of assets).

A discontinued operation is a division that is either disposed or held for sale. Results of discontinued operations are included separately in the income statement.

XII. Explanations on goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity 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.

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

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XII. Explanations on goodwill and other intangible assets (continued)

Intangible assets that are acquired prior to 1 January 2005 are carried at restated historical cost as of 31 December 2004; and those acquired subsequently are carried at cost less accumulated amortization, and any impairment. Intangible assets are depreciated over their expected useful lives. Depreciation method and period are reviewed periodically at the end of each year. Intangible assets are mainly composed of rights and they are depreciated principally on a straight-line basis between 1-15 years.

XIII. Explanations on tangible assets

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

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

Normal maintenance and repair expenditures are expensed.

There is no pledge, mortgage or any other lien on tangible assets.

Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards

Depreciation rates and estimated useful lives of tangible assets are as follows.

Tangible Assets	Expected Useful Lives (Years)	Depreciation Rate (%)
Cashboxes	4-25	4-25
Vehicles	5	20
Other Tangible Assets	1-50	2-100

Investment Property

Operating investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognized when it is probable that the future economic benefits that are associated with them will flow to the Group and the cost of them can be measured reliably. Fair value model was chosen in the measurement of the investment properties. Gains and losses arising from changes in the fair values of investment properties are recognized in profit or loss for the period in which it arises.

XIV. Explanations on leasing transactions

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. The lease payments are allocated as principle and interest. 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.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XIV. Explanations on leasing transactions (continued)

The Group as Lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Group’s general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

XV. Explanations on provisions and contingent liabilities

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If aforesaid criterias did not compose, the Parent Bank has disclosed mentioned issues in note to financial statements. Provisions are determined by using the Group’s best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

Explanations on contingent assets

Contingent assets consist of unplanned or other unexpected events that usually cause a possible inflow of economic benefits to the Parent Bank. Since recognition of the contingent assets in the financial statements would result in the accounting of an income, which maynever be generated, the related assets are not included in the financial statements; on the other hand, if the inflow of the economic benefits of these assets to the Parent Bank is probable, an explanation is made thereon in the footnotes of the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and in case the inflow of the economic benefit to the Parent Bank is almost certain, the related asset and the respective income are recognised in the financial statements of the period in which the change occurred.

XVI. Explanations on liabilities regarding employee benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. In retirement and involuntarily leaving, the Group records the present value of the defined benefit obligation.

There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 month period. Actuarial gains and losses are accounted under Shareholder’s Equity since 1 January 2013 in accordance with the Revised TAS 19.

Employees of the Parent Bank are members of “Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı” and “Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı” (“the Pension Fund”). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of “Regulations on Actuaries” issued based on the related law by an actuary registered in the Actuarial Registry.

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.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVI. Explanations on liabilities regarding employee benefits (continued)

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.

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 Parent 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 Parent Bank.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVII. Explanations on taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates that have been enacted by the reporting date.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

According to the second paragraph of the Article 53 of the Banking Act No: 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

Transfer pricing

Transfer pricing is regulated through Article 13 of Corporate Tax Law titled “Transfer Pricing through camouflage of earnings”. Detailed information for the practice regarding the subject is found in the “General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing”. According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against “arm’s length principle”, the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

XVIII. Additional explanations on borrowings

Borrowings are recognized at initial cost on transaction date and carried at amortized cost using effective interest method. In the accompanying financial statements, foreign currency debt instruments are valued using foreign exchange rates of the Parent Bank as of the period end and interest expense amounts of related period arising from borrowings are reflected in the financial statements.

All other borrowing costs are recorded to the income statement at the period they are incurred.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XIX. Explanations on share certificates issued

In the current period 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 Parent 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, TL 163.000 of this increase will be incorporated from extraordinary reserves. The increase in paid-in capital was 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.

XX. Explanations on acceptances

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

XXI. Explanations on government incentives

The Parent Bank does not use government incentives.

XXII. Explanations on segment reporting

In accordance with its mission, the Parent Bank mainly operates in investment and corporate banking segments.

Corporate Marketing Management operations are included in the corporate banking. The corporate banking is serving financial solutions and banking services for its large-scale corporate customers. Among the services given to corporate customers are; TL and foreign exchange operating loans, investment credits, project financing, letters of credit and letters of guarantees.

Operating income of investment banking are comprised of ; income that operations of Treasury, Corporate Finance, Research, Financial Institutions and Marketable Securities Managements. Under the investment banking activities, portfolio management for corporate and individual customers, marketable securities intermediary activities, cash flow management and all types of corporate finance services is provided.

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

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XXII. Explanations on segment reporting (continued)

The segmental allocation of the Group's net profit, total assets and total liabilities are shown below.

Current Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	292.135	187.960	1.493	481.588
Net Fees and Commission Income	8.001	2.348	17.518	27.867
Other Income	7.614	-	130.512	138.126
Other Expense	(72.444)	(31.637)	(173.307)	(277.388)
Profit Before Tax	235.306	158.671	(23.784)	370.193
Tax Provision				(75.039)
Net Profit				**295.154**
Group's profit / loss				303.890
Non-controlling interest				(8.736)
Current Period	**Corporate Banking**	**Investment Banking**	**Other**	**Total**
Segment Assets	9.000.617	3.353.574	847.534	13.201.725
Investment in Associates and Subsidiaries	-	-	237.491	237.491
Total Assets	**9.000.617**	**3.353.574**	**1.085.025**	**13.439.216**
Segment Liabilities	8.905.217	1.859.560	656.905	11.421.682
Shareholders' Equity	-	-	2.017.534	2.017.534
Total Liabilities	**8.905.217**	**1.859.560**	**2.674.439**	**13.439.216**

Prior Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	242.277	188.244	(5.677)	424.844
Net Fees and Commission Income	10.185	1.751	14.584	26.520
Other Income	7.010	10.375	72.197	89.582
Other Expense	(58.668)	(23.464)	(57.409)	(139.541)
Profit Before Tax	200.804	176.906	23.695	401.405
Tax Provision				(76.254)
Net Profit				**325.151**
Group's profit / loss				317.010
Non-controlling interest				8.141
Prior Period	**Corporate Banking**	**Investment Banking**	**Other**	**Total**
Segment Assets	6.792.868	3.068.682	783.339	10.644.889
Investment in Associates and Subsidiaries	-	-	212.429	212.429
Total Assets	**6.792.868**	**3.068.682**	**995.768**	**10.857.318**
Segment Liabilities	6.718.858	1.540.142	679.316	8.938.316
Shareholders' Equity	-	-	1.919.002	1.919.002
Total Liabilities	**6.718.858**	**1.540.142**	**2.598.318**	**10.857.318**

XXIII. Explanations on other matters

As a result amendments to TAS 19 (2011) all actuarial differences are recognised in the statement of comprehensive income.

Prior to these amendments, all actuarial differences had been recognised in profit or loss. As the amendments do not have significant impact on the comparative financial statements for the year ended 31 December 2012, they have not been restated.

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

SECTION FOUR

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT

I. Explanations related to the consolidated capital adequacy standard ratio

Since 1 July 2012, capital adequacy standard ratio is calculated in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks", which was published on 28 June 2012 in the Official Gazette numbered 28337. In this context, credit and market risk are calculated based on the Standardised Approach and the operational risk is calculated based on the Basic Indicator Approach. In the calculation process of credit risk, loans are classified in the related risk weight by taking into account the risk portfolio types, ratings and credit risk mitigation techniques. The Parent Bank uses "comprehensive guarantee approach" for trading book items in the credit mitigation process.

As of 31 December 2013, the Parent Bank's capital adequacy ratio in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 16,57%.

Information related to the consolidated capital adequacy standard ratio

	Risk Weights (*)						
Current Period	**Parent Bank**						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.334.350**	**633.468**	**2.348.062**	**-**	**8.955.146**	**13**	**35**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.334.314	-	368.699	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	1.500	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	319	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	419.010	783.400	-	-	-	-
Contingent and Non-Contingent Claims on Corporate	-	214.139	777.505	-	8.483.099	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	418.458	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	13	35
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	106.009	-	-
Other Claims	36	-	-	-	364.538	-	-

(*)The Parent Bank has no credit risk related to 10% and 1250% risk weight.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the consolidated capital adequacy standard ratio(continued)

	Risk Weights (*)						
Prior Period	**Parent Bank**						
	%0	**%20**	**%50**	**%75**	**%100**	**%150**	**%200**
The Amount Subject to Credit Risk	**2.275.521**	**136.510**	**1.598.550**	**14.025**	**7.316.578**	**8**	**8**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.270.481	-	345.062	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	2.436	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	136.510	1.252.410	-	83.638	-	-
Contingent and Non-Contingent Claims on Corporate	-	-	-	-	6.708.708	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	14.025	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	1.078	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	8	8
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	184.038	-	-
Other Claims	5.040	-	-	-	337.758	-	-

(*)The Parent Bank has no credit risk related to 10% and 1250% risk weight.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the consolidated capital adequacy standard ratio(continued)

	Risk Weights (*)						
Current Period	**Consolidated**						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.348.823**	**673.707**	**2.712.906**	**-**	**8.925.870**	**13**	**35**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.348.716	-	368.699	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	600	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	1.929	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	319	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	459.249	1.250.454	-	-	-	-
Contingent and Non-Contingent Claims on Corporate	-	214.139	777.505	-	8.486.612	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	315.648	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	13	35
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	92.833	-	-
Other Claims	107	-	-	-	344.496	-	-

(*)The Group has no credit risk related to 10% and 1250% risk weight.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the consolidated capital adequacy standard ratio(continued)

	Risk Weights (*)						
Prior Period	**Consolidated**						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.291.734**	**518.618**	**1.689.274**	**39.029**	**7.200.975**	**8**	**8**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.270.481	-	345.062	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	600	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	4.418	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	518.018	1.343.134	-	83.638	-	-
Contingent and Non-Contingent Claims on Corporate	-	-	-	-	6.709.627	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	39.029	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	1.078	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	8	8
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-		-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	82.060	-	-
Other Claims	21.253	-	-	-	321.232	-	-

(*)The Group has no credit risk related to 10% and 1250% risk weight.

Summary information related to the consolidated capital adequacy standard ratio

	Parent Bank	Consolidated	Parent Bank	Consolidated
	Current Period	**Current Period**	**Prior Period**	**Prior Period**
Capital Requirement for Credit Risk (Amount subject to Credit Risk*0,08) (CRCR)	820.477	833.372	652.296	654.291
Capital Requirement for Market Risk (CRMR)	15.916	26.548	15.460	15.101
Capital Requirement for Operational Risk (CROR)	56.851	63.333	47.693	56.193
Shareholders' Equity	2.026.807	1.912.404	1.820.009	1.762.403
Shareholders' Equity/((CRCR+CRMR+CROR) *12,5)*100	**18,15**	**16,57**	**20,35**	**19,43**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity

	The Parent Bank	Consolidated	The Parent Bank	Consolidated
CORE CAPITAL	**Current Period**	**Current Period**	**Prior Period**	**Prior Period**
Paid-in Capital	1.300.000	1.300.000	1.100.000	1.100.000
Nominal Capital	1.300.000	1.300.000	1.100.000	1.100.000
Capital Commitments (-)	-	-	-	-
Inflation Adjustment to Share Capital	374	374	374	374
Share Premium	-	388	-	388
Share Cancellation Profits	-	-	-	-
Legal Reserves	254.006	262.400	187.221	195.793
Inflation Adjustment on Legal Reserves, Statutory Reserves and Extraordinary Reserves	-	-	-	-
Profit	326.057	365.889	307.264	369.263
Current Period Profit	326.057	303.890	307.264	317.010
Prior Years' Profits	-	61.999	-	52.253
Provisions for Possible Losses up to 25% of Core Capital	-	-	-	-
Profit on sale of associates, subsidiaries and buildings	8.920	8.920	35.157	35.157
Primary subordinated loans	-	-	-	-
Non-controlling interest	-	75.520	-	84.258
Loss that is not covered with reserves (-)	-	-	-	-
Net current period loss	-	-	-	-
Prior period loss	-	-	-	-
Leasehold improvements (-)	(111)	(1.776)	(198)	(873)
Intangible assets (-)	(645)	(1.244)	(618)	(1.015)
Deferred-assets for tax which exceeds 10% of core	-	-	-	-
Excess amount expressed in the Law (Article 56, 3rd paragraph) (-)	-	-	-	-
Consolidation Goodwill (Net) (-)	-	(1.005)	-	(1.005)
Total Core Capital	**1.888.601**	**2.009.466**	**1.629.200**	**1.782.340**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity (continued)

	The Parent Bank	Consolidated	The Parent Bank	Consolidated
SUPPLEMENTARY CAPITAL	**Current Period**	**Current Period**	**Prior Period**	**Prior Period**
General Loan Loss Provisions	104.331	96.583	83.714	77.247
45% of the Revaluation Reserve for Movable Fixed Assets	-	-	-	-
45% of the of Revaluation Reserve for Properties	-	-	-	-
Bonus Shares Obtained from Associates, Subsidiaries and Entities Under Common Control	-	-	-	-
Primary Subordinated Loans Excluded in the Calculation of the Core Capital	-	-	-	-
Secondary Subordinated Loans (*)	42.400	42.400	53.040	53.040
45% of the Marketable Securities Value Increase Fund (**)	(8.169)	(702)	54.429	60.189
Indexation Differences for Capital Reserves, Profit Reserves and Retained Earnings (Except Indexation Differences for Legal Reserves, Statutory Reserves and Extraordinary Reserves)	-	-	-	-
Non Controlling Interest	-	1	-	7
Total Supplementary Capital	**138.562**	**138.282**	**191.183**	**190.483**
CAPITAL	**2.027.163**	**2.147.748**	**1.820.383**	**1.972.823**
DEDUCTIONS FROM THE CAPITAL	**(356)**	**(235.344)**	**(374)**	**(210.420)**
Shareholdings in Non-consolidated Banks and Financial Institutions	-	-	-	-
Loans Extended to Banks, Financial Institutions (Domestic and Abroad) and Qualified Shareholders, Like Secondary Subordinated Loan and Debt Instruments Purchased from These Institutions Issued, Like Primary and Secondary Subordinated Loan	-	-	-	-
Banks and Financial Institutions to which are Accounted for Under Equity Method, but, are not Consolidated	-	(234.988)	-	(210.046)
Loans Extended Being Non-compliant with Articles 50 and 51 of the Law	-	-	-	-
The Net Book Value of Properties Exceeding Fifty Percent of Equity and Properties Held for Sale and Properties and Commodity to be Disposed, Acquired in Exchange of Loans and Receivables According to the Article 57 of the Banking Law and have not been Disposed yet	(356)	(356)	(374)	(374)
Securitisation Positions Deducted from Equity Preferred	-	-	-	-
Other	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY	**2.026.807**	**1.912.404**	**1.820.009**	**1.762.403**

(*) According to BRSA's "Regulation on Equity of Banks", 40% amount of the Parent Bank's Subordinated Loan is included in the calculation of supplementary capital if the maturity of the subordinated loan is less than 5 years.

(**) 45% of marketable securities value increase fund is included in computation if marketable securities value increase fund is positive, 100% is included if negative.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

The approaches used for internal capital adequacy assessment in terms of current and future activities

The evaluation of the Parent Bank's internal capital adequacy assessment in terms of current and future activities is carried out within the framework of the principles identified at the Capital Adequacy Policy approved in the Board of Directors meeting held on 28 September 2012.

The purpose of the internal assessment process of capital requirements is to identify and evaluate all the risks both included and not included in the calculations of regulatory capital requirement, by this means, to ensure keeping sufficient capital to cover these risks and to ensure the application of appropriate risk management techniques.

The Parent Bank's internal assessment process is risk-oriented and future-oriented. Current and future capital requirements are analyzed in accordance with the Parent Bank's strategic objectives and anticipated capital costs, target capital levels and capital resources are taken into account. Through the process of internal assessment, a general capital level and assessment are exhibited, the results and findings of the internal assessment process are taken into consideration in the process of assessment of the Parent Bank's strategy and risk appetite.

Within the scope of the process, for the three-year period covering the years 2013-2015, the Parent Bank's capital requirement and internal capital adequacy is evaluated, based on the the Parent Bank's asset structure and risk profile, the expectations on macro-economic factors such as economic growth and foreign exchange rates, and stress scenarios, In this context, interest rate risk in the banking book, concentration risk for sectors, countries and economic groups within credit risk, liquidity risk and other risks including reputation risk, strategic risk, etc., as well as credit risk, market risk and operational risk which are contained in the calculation of the regulatory capital requirement, are included.

II. Explanations related to consolidated credit risk

The sectoral breakdown of loans is documented monthly and limitations are made according to evaluations. There is no limitation applied geographically.

Monitoring and checking is made for the treasury operations. Risk limits are identified for the operations implemented.

The credit monitoring department screens the creditworthiness of loan customers once every six mounts 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" ("Communiqué on Reserves"). Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Parent Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal surety ship, 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 counter parties.

In accordance with Communiqué on Reserves;

Impaired loans, are loans past due more than 90 days as of reporting period or convinced to be impaired due to credibility. In accordance with Communiqué on Reserves, "Specific Provision" is allocated for these loans.

Past due loans, are loans past due up to 90 days as of reporting period but not impaired. In accordance with Communiqué on Reserves, "General Provision" is calculated for these loans.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types

Current Period	Current Period Risk Amount (*)	Average Risk Amount (**)
Contingent and Non-Contingent Claims on Sovereigns	3.145.346	3.315.917
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	3.000
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	9.660	13.131
Contingent and Non-Contingent Claims on Multilateral Development Banks	1.593	398
Contingent and Non-Contingent Claims on International Organizations	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	3.953.729	3.070.469
Contingent and Non-Contingent Claims on Corporates	11.652.551	10.858.791
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	76.051
Contingent and Non-Contingent Claims Secured by Real Estate Property	315.648	133.346
Past Due Loans	-	-
Higher-Risk Categories Defined by Agency	48	31
Securities Secured by Mortgage	-	-
Securitization Exposures	-	-
Short-Term Claims on Banks and Corporate	-	-
Undertakings for Collective Investments in Transferable Securities	92.833	165.784
Other Claims	388.606	462.474

(*) Includes total risk amounts before the effect of credit risk mitigation.
(**)Average risk amount are the arithmetical average of the amounts in monthly reports prepared starting from 1 January 2013 to the period end.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types (continued)

Prior Period	**Current Period Risk Amount (*)**	**Average Risk Amount (**)**
Contingent and Non-Contingent Claims on Sovereigns	3.433.261	3.346.312
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	3.000
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	26.419	25.233
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	2.599.335	2.588.510
Contingent and Non-Contingent Claims on Corporates	9.072.669	8.949.003
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	236.926	246.009
Contingent and Non-Contingent Claims Secured by Real Estate Property	1.078	539
Past Due Loans	-	-
Higher-Risk Categories Defined by Agency	16	17
Securities Secured by Mortgage	-	-
Securitization Exposures	-	-
Short-Term Claims on Banks and Corporate	-	-
Undertakings for Collective Investments in Transferable Securities	205.611	255.927
Other Claims	342.485	338.919

(*) Includes total risk amounts before the effect of credit risk mitigation.
(**) Average risk amounts are the arithmetical average of the amounts in monthly reports in which capital adequacy is measured in accordance with Basel II, starting from 1 July 2012 to the period end.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the Parent Bank's 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 Parent 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 Parent 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 Parent 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 counter party limits are set with operations made with the banks.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

The Parent 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.

The first 100 and 200 largest cash loans constitute 84,66% and 97,88% of the total cash loans portfolio of the Group respectively (31 December 2012: 83,83% and 97,77%)

The first 100 and 200 largest non cash loans constitute 100% and 100% of the total non cash loans portfolio of the Group respectively (31 December 2012: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 83,72% and 97,30% of the total on and off balance sheet accounts of the Group respectively (31 December 2012: 83,05% and 97,24%)

The Parent Bank calculated the general loan loss provision of TL 96.583 (31 December 2012: TL 77.247).

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Profile of Significant Exposures in Major Regions

	Risk Types (*)																
Current Period	Contingent and Non-Contingent Claims on Sovereigns	Contingent and Non-Contingent Claims on Regional Govern-ments and Local Authorities	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	Contingent and Non-Contingent Claims on Multilateral Development Banks	Contingent and Non-Contingent Claims on Interna-tional Organiza-tions	Contingent and Non-Contingent Claims on Banks and Capital Market Intermedi-ary	Contin-gent and Non-Contin-gent Claims on Corpo-rates	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	Contingent and Non-Contingent Claims Secured by Real Estate Property	Past Due Loans	Higher-Risk Categories Defined by Agency	Securities Secured by Mortgage	Securitiza-tion Exposures	Short-Term Claims on Banks and Corporate	Undertak-ings for Collective Investments in Transfer-able Securi-ties	Other Claims	Total
Domestic	2.702.378	600	893	-	-	1.459.755	9.284.119	-	315.648	-	48	-	-	-	92.487	313.467	14.169.395
European Union (EU) Countries	-	-	-	319	-	164.866	-	-	-	-	-	-	-	-	-	2.957	168.142
OECD Countries (**)	-	-	-	-	-	1.708	-	-	-	-	-	-	-	-	-	-	1.708
Off-Shore Banking Regions	-	-	-	-	-	-	22.359	-	-	-	-	-	-	-	-	-	22.359
USA, Canada	-	-	-	-	-	49.900	-	-	-	-	-	-	-	-	-	-	49.900
Other Countries	-	-	-	-	-	33.473	49.145	-	-	-	-	-	-	-	-	-	82.618
Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	-	122.631	-	-	-	-	-	-	-	346	2.258	125.235
Unallocated Assets/ Liabilities (***)	15.037	-	1.036	-	-	1	2	-	-	-	-	-	-	-	-	25.921	41.997
Total	**2.717.415**	**600**	**1.929**	**319**	**-**	**1.709.703**	**9.478.256**	**-**	**315.648**	**-**	**48**	**-**	**-**	**-**	**92.833**	**344.603**	**14.661.354**

(*)Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks'' have been used.

(**) Includes OECD countries other than EU countries, USA and Canada.

(***) Includes asset and liability items that cannot be allocated on a consistent basis.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Profile of Significant Exposures in Major Regions (continued)

	Risk Types (*)																
Prior Period	Contingent and Non-Contingent Claims on Sovereigns	Contingent and Non-Contingent Claims on Regional Govern-ments and Local Authorities	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	Contingent and Non-Contingent Claims on Multilateral Development Banks	Contingent and Non-Contingent Claims on Interna-tional Organiza-tions	Contingent and Non-Contingent Claims on Banks and Capital Market Intermedi-ary	Contin-gent and Non-Contin-gent Claims on Corpo-rates	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	Contingent and Non-Contingent Claims Secured by Real Estate Property	Past Due Loans	Higher-Risk Categories Defined by Agency	Securities Secured by Mortgage	Securitiza-tion Exposures	Short-Term Claims on Banks and Corporate	Undertak-ings for Collective Investments in Transfer-able Securi-ties	Other Claims	Total
Domestic	2.615.543	600	4.418	-	-	1.665.450	6.709.626	39.013	1.078	-	16	-	-	-	81.854	33.534	11.151.132
European Union (EU) Countries	-	-	-	-	-	34.060	-	-	-	-	-	-	-	-	-	2.957	37.017
OECD Countries (**)	-	-	-	-	-	603	-	-	-	-	-	-	-	-	-	-	603
Off-Shore Banking Regions	-	-	-	-	-	83.638	-	-	-	-	-	-	-	-	-	-	83.638
USA, Canada	-	-	-	-	-	36.050	-	-	-	-	-	-	-	-	-	-	36.050
Other Countries	-	-	-	-	-	27.915	-	-	-	-	-	-	-	-	-	-	27.915
Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	97.074	-	-	-	-	-	-	-	-	206	2.143	99.423
Unallocated Assets/ Liabilities (***)	-	-	-	-	-	-	1	16	-	-	-	-	-	-	-	303.851	303.868
Total	**2.615.543**	**600**	**4.418**	**-**	**-**	**1.944.790**	**6.709.627**	**39.029**	**1.078**	**-**	**16**	**-**	**-**	**-**	**82.060**	**342.485**	**11.739.646**

(*)Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks'' have been used.

(**) Includes OECD countries other than EU countries, USA and Canada.

(***) Includes asset and liability items that cannot be allocated on a consistent basis.

TÜRKİYE SINAİ KALKINMA BANKASI A.Ş AND ITS SUBSIDIARIES
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SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Risk profile by sectors or counterparties

	Risk Types (*)																		
Current Period	Contingent and Non-Contingent Claims on Sovereigns	Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	Contingent and Non-Contingent Claims on Multilateral Development Banks	Contingent and Non-Contingent Claims on International Organizations	Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	Contingent and Non-Contingent Claims on Corporates	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	Contingent and Non-Contingent Claims Secured by Real Estate Property	Past Due Loans	Higher-Risk Categories Defined by Agency	Securities Secured by Mortgage	Securitization Exposures	Short-Term Claims on Banks and Corporate	Undertakings for Collective Investments in Transferable Securities	Other Claims	TL	FC	Total
Agriculture	-	-	-	-	-	-	5.324	-	-	-	-	-	-	-	-	606	3.276	2.654	5.930
Farming and Stockbreeding	-	-	-	-	-	-	5.324	-	-	-	-	-	-	-	-	262	2.932	2.654	5.586
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	344	344	-	344
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	9.218	6.575.239	-	1.745	-	-	-	-	-	-	1.017	561.470	6.025.749	6.587.219
Mining and Quarrying	-	-	-	-	-	-	79.834	-	-	-	-	-	-	-	-	-	-	79.834	79.834
Production	-	-	-	-	-	1.255	2.240.058	-	1.745	-	-	-	-	-	-	1.017	321.756	1.922.319	2.244.075
Electricity, Gas and Water	-	-	-	-	-	7.963	4.255.347	-	-	-	-	-	-	-	-	-	239.714	4.023.596	4.263.310
Construction	-	-	-	-	-	-	121.744	-	2.130	-	-	-	-	-	-	-	29.246	94.628	123.874
Services	358.870	-	426	319	-	1.700.485	2.667.183	-	311.773	-	-	-	-	-	92.833	52.510	1.138.993	4.045.406	5.184.399
Wholesale and Retail Trade	-	-	-	-	-	-	29.521	-	-	-	-	-	-	-	-	92	10.499	19.114	29.613
Accommodation and Dining	-	-	-	-	-	-	282.542	-	3.532	-	-	-	-	-	-	-	10	286.064	286.074
Transportation and Telecommunication	-	-	-	-	-	1.950	588.695	-	-	-	-	-	-	-	-	1.355	1.367	590.633	592.000
Financial Institutions	358.870	-	426	319	-	1.698.535	1.018.950	-	-	-	-	-	-	-	92.833	50.216	1.084.715	2.135.434	3.220.149
Real Estate and Rental Services	-	-	-	-	-	-	354.683	-	302.197	-	-	-	-	-	-	-	11.768	645.112	656.880
Professional Services	-	-	-	-	-	-	315.618	-	-	-	-	-	-	-	-	847	30.634	285.831	316.465
Educational Services	-	-	-	-	-	-	7.775	-	6.044	-	-	-	-	-	-	-	-	13.819	13.819
Health and Social Services	-	-	-	-	-	-	69.399	-	-	-	-	-	-	-	-	-	-	69.399	69.399
Others	2.358.545	600	1.503	-	-	-	108.766	-	-	-	48	-	-	-	-	290.470	2.320.006	439.926	2.759.932
Total	**2.717.415**	**600**	**1.929**	**319**	**-**	**1.709.703**	**9.478.256**	**-**	**315.648**	**-**	**48**	**-**	**-**	**-**	**92.833**	**344.603**	**4.052.991**	**10.608.363**	**14.661.354**

(*)Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Risk profile by sectors or counterparties (continued)

	Risk Types (*)																		
Prior Period	Contingent and Non-Contingent Claims on Sovereigns	Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	Contingent and Non-Contingent Claims on Multilateral Development Banks	Contingent and Non-Contingent Claims on International Organizations	Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	Contingent and Non-Contingent Claims on Corporates	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	Contingent and Non-Contingent Claims Secured by Real Estate Property	Past Due Loans	Higher-Risk Categories Defined by Agency	Securities Secured by Mortgage	Securitization Exposures	Short-Term Claims on Banks and Corporate	Undertakings for Collective Investments in Transferable Securities	Other Claims	TL	FC	Total
Agriculture	-	-	-	-	-	-	12.024	-	-	-	-	-	-	-	-	629	6.297	6.356	12.653
Farming and Stockbreeding	-	-	-	-	-	-	12.024	-	-	-	-	-	-	-	-	267	5.935	6.356	12.291
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	362	362	-	362
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	23.504	4.974.343	-	-	-	-	-	-	-	-	2.486	264.056	4.736.277	5.000.333
Mining and Quarrying	-	-	-	-	-	-	41.880	-	-	-	-	-	-	-	-	-	-	41.880	41.880
Production	-	-	-	-	-	8.035	1.947.948	-	-	-	-	-	-	-	-	1.194	179.228	1.777.949	1.957.177
Electricity, Gas and Water	-	-	-	-	-	15.469	2.984.515	-	-	-	-	-	-	-	-	1.292	84.828	2.916.448	3.001.276
Construction	-	-	-	-	-	-	153.518	-	-	-	-	-	-	-	-	-	17.553	135.965	153.518
Services	145.973	-	4.184	-	-	1.921.270	1.565.210	-	1.078	-	-	-	-	-	82.060	34.182	890.231	2.863.726	3.753.957
Wholesale and Retail Trade	-	-	-	-	-	-	354.482	-	-	-	-	-	-	-	-	-	41.776	312.706	354.482
Accommodation and Dining	-	-	-	-	-	1.236	207.953	-	-	-	-	-	-	-	-	-	10	209.179	209.189
Transportation and Telecommunication	-	-	-	-	-	-	417.806	-	-	-	-	-	-	-	-	1.235	1.358	417.683	419.041
Financial Institutions	145.973	-	4.184	-	-	1.920.034	1.994	-	-	-	-	-	-	-	82.060	32.100	823.563	1.362.782	2.186.345
Real Estate and Rental Services	-	-	-	-	-	-	385.195	-	-	-	-	-	-	-	-	-	14.113	371.082	385.195
Professional Services	-	-	-	-	-	-	152.732	-	-	-	-	-	-	-	-	847	9.411	144.168	153.579
Educational Services	-	-	-	-	-	-	12.419	-	-	-	-	-	-	-	-	-	-	12.419	12.419
Health and Social Services	-	-	-	-	-	-	32.629	-	1.078	-	-	-	-	-	-	-	-	33.707	33.707
Others	2.469.570	600	234	-	-	16	4.532	39.029	-	-	16	-	-	-	-	305.188	2.462.431	356.754	2.819.185
Total	**2.615.543**	**600**	**4.418**	**-**	**-**	**1.944.790**	**6.709.627**	**39.029**	**1.078**	**-**	**16**	**-**	**-**	**-**	**82.060**	**342.485**	**3.640.568**	**8.099.078**	**11.739.646**

(*)Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Analysis of maturity-bearing exposures according to remaining maturities

Risk Types	**Term to Maturity**				
Current Period	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**Over 1 year**
Contingent and Non-Contingent Claims on Sovereigns	292.004	271.469	143.993	337.475	1.552.916
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	1.036	-	-	-	458
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	319
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	725.027	75.036	87.541	168.521	490.937
Contingent and Non-Contingent Claims on Corporates	345.561	47.102	152.993	546.069	8.369.630
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	89	2.497	313.062
Past Due Loans	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	12	-	36
Securities Secured by Mortgage	-	-	-	-	-
Securitization Exposures	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	92.331
Other Claims	7.745	-	-	-	-
Total	**1.371.373**	**393.607**	**384.628**	**1.054.562**	**10.819.689**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Analysis of maturity-bearing exposures according to remaining maturities (continued)

Risk Types	Term to Maturity				
Prior Period	**Up to 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**Over 1 year**
Contingent and Non-Contingent Claims on Sovereigns	247.470	59.518	152.402	165.100	1.963.716
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	65	-	-	1.982	2.367
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	249.657	256.360	54.265	109.833	1.215.073
Contingent and Non-Contingent Claims on Corporates	64.526	102.502	82.847	232.854	6.205.047
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	35.752	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	-	1.078	-
Past Due Loans	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	16
Securities Secured by Mortgage	-	-	-	-	-
Securitization Exposures	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	4.454	-	10	-	77.390
Other Claims	-	-	-	-	-
Total	**601.924**	**418.380**	**289.524**	**510.847**	**9.463.609**

Information on risk types

Referring to article No. 7 of the Communiqué on “Measurement and Assessment of Capital Adequacy of Banks”, in the process of risk weighted assets calculation, risk weights are determined through ratings given by authorized rating companies. Ratings given by International Rating Companies can be used for receivables includes receivables from Banks and Brokerage Houses settled abroad, receivables from Regional Authorities and Local Authorities, receivables from Administrative Bodies and Non-Commercial Undertakings, receivables from Multilateral Development Banks and Corporate Receivables risk weights. The Resident Institutions are assessed as unrated.

In determination of risk weights for exposures on capital adequacy calculation of the Parent Bank, ratings are used given by Fitch Ratings Rating Agency.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Information on risk types (continued)

The table related to mapping of the ratings given by Fitch Ratings' International Rating Agency as per credit quality grades and risk weights used in the calculations, is as follows.

Current Period		Risk Types			
Credit Quality Grades	Fitch Ratings	Claims on Sovereigns	Claims on Banks and Capital Market Intermediary		Claims on Corporate Receivables
			Claims with Remaining Maturities Less Than 3 Months	Claims with Remaining Maturities More Than 3 Months	
1	AAA	0%	20%	20%	20%
	AA+				
	AA				
	AA-				
2	A+	20%	20%	50%	50%
	A				
	A-				
3	BBB+	50%	20%	50%	100%
	BBB				
	BBB-				
4	BB+	100%	50%	100%	100%
	BB				
	BB-				
5	B+	100%	50%	100%	150%
	B				
	B-				
6	CCC+	150%	150%	150%	150%
	CCC				
	CCC-				
	CC				
	C				
	D				
Unrated	Unrated	100%	20% (*)	50% (*)	100%

(*)Used in case when the risk weight of the sovereign of the Parent Bank's country is not higher.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Information on risk types (continued)

The table related to mapping of the ratings given by Fitch Ratings' International Rating Agency as per credit quality grades and risk weights used in the calculations, is as follows.

Prior Period		Risk Types			
Credit Quality Grades	Fitch Ratings	Claims on Sovereigns	Claims on Banks and Capital Market Intermediary: Claims with Remaining Maturities Less Than 3 Months	Claims on Banks and Capital Market Intermediary: Claims with Remaining Maturities More Than 3 Months	Claims on Corporate Receivables
1	AAA, AA+, AA, AA-	0%	20%	20%	20%
2	A+, A, A-	20%	20%	50%	50%
3	BBB+, BBB, BBB-	50%	20%	50%	100%
4	BB+, BB, BB-	100%	50%	100%	100%
5	B+, B, B-	100%	50%	100%	150%
6	CCC+, CCC, CCC-, CC, C, D	150%	150%	150%	150%
Unrated	Unrated	100%	20% (*)	50% (*)	100%

(*)Used in case when the risk weight of the sovereign of the Parent Bank's country is not higher.

Exposures by risk weights

Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	1250%	Deducted from Equities
Current Period										
Exposures Before Credit Risk Mitigation (*)	2.568.246	-	1.933.671	2.429.269	-	9.335.334	13	35	-	239.369
Exposures After Credit Risk Mitigation	2.348.823	-	673.707	2.712.906	-	8.925.870	13	35	-	239.369

(*)Includes risk amounts after the credit conversions and before the effect of credit risk mitigation.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Exposures by risk weights (continued)

Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	1250%	Deducted from Equities
Prior Period										
Exposures Before Credit Risk Mitigation (*)	3.109.444	-	677.179	1.663.440	117.583	7.407.027	8	8	-	213.313
Exposures After Credit Risk Mitigation	2.291.734	-	518.618	1.689.274	39.029	7.200.975	8	8	-	213.313

(*)Includes risk amounts after the credit conversions and before the effect of credit risk mitigation.

Information of major sectors or type of counterparties

Current Period	**Loans**			
Major Sectors / Counterparties	**Impaired Loans**	**Past Due Loans**	**Value Adjustments**	**Provisions**
Agriculture	3.432	-	-	(3.432)
Farming and Stockbreeding	3.432	-	-	(3.432)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	26.941	-	-	(26.941)
Mining and Quarrying	191	-	-	(191)
Production	9.512	-	-	(9.512)
Electricity, Gas and Water	17.238	-	-	(17.238)
Construction	516	-	-	(516)
Services	6.497	-	-	(6.497)
Wholesale and Retail Trade	829	-	-	(829)
Accommodation and Dining	292	-	-	(292)
Transportation and Telecommunication	-	-	-	-
Financial Institutions	12	-	-	(12)
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	5.364	-	-	(5.364)
Others	-	-	-	-
Total	**37.386**	**-**	**-**	**(37.386)**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Information of major sectors or type of counterparties (continued)

Prior Period	**Loans**			
Major Sectors / Counterparties	**Impaired Loans**	**Past Due Loans**	**Value Adjustments**	**Provisions**
Agriculture	3.422	-	-	(3.422)
Farming and Stockbreeding	3.422	-	-	(3.422)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	4.523	985	10	(4.523)
Mining and Quarrying	191	-	-	(191)
Production	4.332	-	-	(4.332)
Electricity, Gas and Water	-	985	10	-
Construction	513	-	-	(513)
Services	7.166	-	-	(7.166)
Wholesale and Retail Trade	399	-	-	(399)
Accommodation and Dining	963	-	-	(963)
Transportation and Telecommunication	74	-	-	(74)
Financial Institutions	413	-	-	(413)
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	5.317	-	-	(5.317)
Others	-	-	-	-
Total	**15.624**	**985**	**10**	**(15.624)**

Information related with value adjustments and loan loss provisions

Current Period	**Opening balance**	**Provision for the period**	**Provision reversals**	**Other adjustments**	**Closing balance**
Specific Provisions	15.624	24.027	2.265	-	37.386
General Loan Loss Provision	77.247	19.336	-	-	96.583

Prior Period	**Opening balance**	**Provision for the period**	**Provision reversals**	**Other adjustments**	**Closing balance**
Specific Provisions	27.698	613	12.687	-	15.624
General Loan Loss Provision	58.491	18.756	-	-	77.247

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

Cash credit quality per class of financial assets as of 31 December 2013 is as follows:

Current Period	Neither past due nor impaired	Past due or individually impaired	Total
Loans	9.049.098	-	9.049.098
Corporate Loans	7.311.914	-	7.311.914
Loans to SME	1.684.011	-	1.684.011
Consumer Loans	174	-	174
Other	52.999	-	52.999
Receivables from Leasing Transactions	4.518	-	4.518
Total	**9.053.616**	**-**	**9.053.616**

Cash credit quality per class of financial assets as of 31 December 2012 is as follows:

Prior Period	Neither past due nor impaired	Past due or individually impaired	Total
Loans	6.813.234	985	6.814.219
Corporate Loans	5.165.193	-	5.165.193
Loans to SME	1.613.950	985	1.614.935
Consumer Loans	168	-	168
Other	33.923	-	33.923
Receivables from Leasing Transactions	9.432	-	9.432
Total	**6.822.666**	**985**	**6.823.651**

Credit risk is evaluated according to the Parent Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to Parent Bank's internal rating and ratings of the financial services customers, which are rated by external rating firms, are matched to the Parent 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.

Basic Loan Quality Categories	Current Period	Prior Period
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	1.444.957
Impaired	41.616	15.624
Total	**10.063.290**	**8.002.919**

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 of 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 provisions) is TL 10.544.422; and TL 481.132 of these customers have not been rated (31 December 2012: TL 8.051.832; TL 48.913).

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

II. Explanations related to consolidated credit risk (continued)

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

	Current Period	Prior Period
Banks	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-
Loans	106.575	27.595
Corporate Loans	16.588	23.270
Loans to SME	89.987	3.330
Consumer Loans	-	-
Other	-	995
Total	**106.575**	**27.595**

III. Explanations related to the consolidated market risk

In order to avoid the market risk and restrict the risks carried, the Board of Directors determines the limits on market risk. Risk, notional and proportional basis limitation systems are used and informative reports regarding market risk position of the bank are presented to Board of Directors, relevant committees and top management.

The guidelines prepared by Risk Management regarding organization, responsibility and fields of activity were approved by the Board of Directors. Risk management policies were determined and announced throughout the Parent Bank.

Legally, the standard method is used to calculate the consolidated and unconsolidated market risk. In addition to the standard method, the Parent Bank applies Monte Carlo simulation which is internal model to securities portfolio, foreign currency position on a daily or monthly basis to detect the market risks. The success of these models is tested retrospectively. The Parent Bank also makes VaR calculations, scenario analyses and stress tests to detect the risks not caught by using internal models. Market risk is measured on a daily basis and reported to top management, Audit Committee and the Board of Directors weekly and monthly:

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

III. Explanations related to the consolidated market risk (continued)

The consolidated market risk table is as follows:

1.a Information related to the consolidated market risk:

	Current period	Prior Period
(I) Capital Requirement to be Employed for General Market Risk - Standard	7.438	4.449
(II) Capital Requirement to be Employed for Specific Risk - Standard Method	843	768
Capital Requirement for Specific Risk Relating to Securitization Positions – Standard Method	-	-
(III) Capital Requirement to be Employed for Currency Risk - Standard Method	14.007	8.192
(IV) Capital Requirement to be Employed for Commodity Risk - Standard Method	-	-
(V) Capital Requirement to be Employed for Settlement Risk - Standard Method	-	-
(VI) Total Capital Requirement to be Employed for Market Risk Resulting From Options – Standard Method	-	-
(VII) Counterparty credit risk capital requirement - Standard method	4.260	1.692
(VIII) Total Capital Requirement to be Employed for Market Risk in Banks Using Risk Measurement Model	-	-
(IX) Total Capital Requirement to be Employed for Market	26.548	15.101
(X) Amount Subject to Market Risk (12,5 x VIII) or (12,5 x VII)	**331.850**	**188.763**

1.b Average market risk table as of the month ends during the period:

	Current Period			Prior Period (*)		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest Rate Risk	7.029	8.358	5.317	4.688	4.737	4.639
Common Stock Risk	372	721	135	335	480	190
Currency Risk	12.259	15.295	7.237	9.592	10.992	8.192
Commodity Risk	-	-	-	-	-	-
Settlement Risk	-	-	-	-	-	-
Option Risk	353	857	-	42	83	-
Counterparty Credit Risk	2.788	4.260	1.933	2.398	3.103	1.692
Total Value At Risk	**22.801**	**29.491**	**14.622**	**17.055**	**19.395**	**14.713**

(*)Risk information given above includes the period between July – December 2012 and represents the amounts calculated under the "Regulation on Measurement and Assessment of the Capital Adequacy of the Banks" published on 28 June 2012.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

III. Explanations related to the consolidated market risk (continued)

2. Explanation related to counter party risk

The Parent Bank gives long term, medium term and short term loans within principles and limits determined by the Board of Directors according to the Banking Law. Loan transactions includes all manner of lending type about financing investments and need to working capital of firms, domestic and foreign loan participation from primary and secondary market, underwriting to purchase and sell of bond and legal instruments that will issued, provide APEX loan facilities to banks and financial institutions by leasing, treasury derivative transaction within limits assigned to firms, export-import transactions, treasury, money and capital market and derivative transaction within limits in countenance of financial institutions (Counterparties).

Project guarantee, mortgage, personnel guarantee, company guarantee, cheques and notes, cash blockage, stock and security pledges could be taken on Treasury, Money and Capital Market and Derivative transaction within limits in countenance of non-financial institutions (Counterparties). On Treasury, Money and Capital Market transaction within limits in countenance of financial institutions (Counterparties) guarantee is not taken and on derivative transactions collateral netting is applied for the firms that signed CSA agreements based on daily derivative valuation. The provision is reserved in accordance with “Substance of the Procedures and Principles Related to Determination of Loans and Other Receivables by the Banks and Allocation of Provision for Those” and international practices.

Quantitative information related to counterparty risk

	Current Period	Prior Period
Interest Rate Contracts	18.440	22.318
Foreign Exchange Rate Contracts	49.011	14.265
Commodity Contracts	-	-
Equity Shares Related Contracts	-	-
Other	-	-
Gross Positive Fair Values	67.451	36.583
Net-off Benefits	-	-
Net-off Current Risk Amount	67.451	36.583
Collaterals Received	1.166	8.112
Net Derivative Position	66.285	28.471

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

III. Explanations related to the consolidated market risk (continued)

3. Required disclosures in case the capital requirement of the Bank is calculated by a risk measurement model permitted by BRSA

Internal model is not used on the calculation of capital requirements for counterparty loan risk.

Other price risks

The Parent Bank is exposed to equity price risks arising from equity investments. Equity investments are mostly held for trading purposes. The Parent Bank does not actively trade these investments.

Equity shares price sensitivity

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

If the inputs (equity shares prices) to the valuation model had been 20% higher/lower while all other variables were held constant;

The Group classifies its equity investments both as held for trading and available for sale investments. Therefore, the net profit/loss is not affected as long as the Group does not sell its equity investments classified as available for sale investments. According to the analysis results under these assumptions; marketable securities value increase fund will increase or decrease by TL 2.166 (31 December 2012: TL 3.354), for marketable securities classified as financial assets held for trading the profit/loss would decrease/increase by TL 203 (31 December 2012: TL 516 marketable securities value increase fund increase/decrease).

IV. Explanations related to consolidated 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.

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 incomes, operational expense for support service from a bank and recoveries from insurance.

	31 December 2010	31 December 2011	31 December 2012	Total/No. of years of positive gross	Rate (%)	Total
Gross Income	364.360	404.306	497.984	422.217	15	**63.333**
Value at Operational Risk (Total*12,5)						**791.656**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

V. Explanations related to consolidated currency risk

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 monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Parent Bank'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 has no hedging transactions through derivative instruments for its foreign currency borrowings and net foreign currency investments.

Announced current foreign exchange buying rates of the Parent Bank as at reporting date and the previous five working days in USD and EURO are as follows:

	1 USD	1 Euro
A. Bank "Foreign Exchange Valuation Rate"		
31 December 2013	2,1200	2,9226
Prior Five Workdays:		
30 December 2013	2,1300	2,9256
27 December 2013	2,0950	2,8827
26 December 2013	2,0750	2,8394
25 December 2013	2,0650	2,8241
24 December 2013	2,0800	2,8463

Simple arithmetic thirty-day averages of the USD and EURO buying rates of the Parent Bank before the reporting date are TL 2,0422 and 2,7971; respectively.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

V. Explanations related to consolidated currency risk (continued)

Information on the Group's foreign currency risk:

	Euro	USD	Other FC	Total
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased, Precious Metals) and Balances with the Central Bank of Turkey	142.103	160.761	-	302.864
Banks	141.924	267.247	2.162	411.333
Financial Assets at Fair Value Through Profit and Loss (*)	15.397	16.265	-	31.662
Money Market Placements	-	-	-	-
Available-For-Sale Financial Assets	32.845	345.221	-	378.066
Loans (**)	3.558.574	4.914.340	-	8.472.914
Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)	-	-	-	-
Held-To-Maturity Investments	-	-	-	-
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets (***)	4.519	46.038	-	50.557
Total Assets	**3.895.362**	**5.749.872**	**2.162**	**9.647.396**
Liabilities				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	6.845	239.386	-	246.231
Funds Provided From Other Financial Institutions	4.158.504	4.999.017	-	9.157.521
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	2.436	8.868	907	12.211
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities (****)	18.520	20.702	-	39.222
Total Liabilities	**4.186.305**	**5.267.973**	**907**	**9.455.185**
Net Balance Sheet Position	**(290.943)**	**481.899**	**1.255**	**192.211**
Net Off-Balance Sheet Position	**(74.627)**	**(287.450)**	**2**	**(362.075)**
Financial Derivative Assets	505.646	308.449	14.559	828.654
Financial Derivative Liabilities	(580.273)	(595.899)	(14.557)	(1.190.729)
Non-Cash Loans (*****)	223.885	722.887	727	947.499
Prior Period				
Total Assets	3.027.903	4.226.956	483	7.255.342
Total Liabilities	3.357.583	3.916.951	33	7.274.567
Net Balance Sheet Position	**(329.680)**	**310.005**	**450**	**(19.225)**
Net Off –Balance Sheet Position	**242.119**	**(261.867)**	**893**	**(18.855)**
Financial Derivative Assets	416.985	130.153	893	548.031
Financial Derivative Liabilities	(174.866)	(392.020)	-	(566.886)
Non-Cash Loans (*****)	110.311	811.491	-	921.802

(*)Exchange rate differences arising from derivative transactions amounting to TL 2.370 is deducted from "Financial Assets at Fair Value Through Profit and Loss".
(**)Loans extended include TL 1.619.009 foreign currency indexed loans.
(***)Prepaid expenses amounting to TL 147 have not been included in "Other Assets".
(****) Marketable securities valuation increase fund amounting to TL 15.648 and exchange rate differences arising from derivative transactions amounting to TL 18.231 have not been included in "Other Liabilities". Borrower funds amounting TL 5.008 based on foreign currencies have been included in "Other Liabilities".
(*****) Has no effect on net off-balance sheet position.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

V. Explanations related to consolidated currency risk (continued)

The Group is mostly exposed to Euro, US Dollars, other foreign currencies.

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

	Increase in Currency Rate	**Effect on Profit / Loss (*)**		**Effect on Equity(**)**	
	%	Current Period	Prior Period	Current Period	Prior Period
USD	10	18.026	1.022	1.419	3.792
Euro	10	(36.703)	(8.857)	146	101
Other	10	126	134	-	-

	Increase in Currency Rate	**Effect on Profit / Loss (*)**		**Effect on Equity(**)**	
	%	Current Period	Prior Period	%	Current Period
USD	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.

Forward foreign exchange contracts

The Group does not have forward foreign exchange contracts to hedge the risk exposure from payments and collections in any foreign exchange.

VI. Explanations related to consolidated interest rate risk

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Parent Bank. General and specific interest rate risk tables in the standard method, by including assets and liabilities, are taken into account in determination of the Capital Adequacy Standard Ratio and to calculate the overall interest rate risk of the Parent Bank.

Forecast results which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analyzes. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

The amount of local borrowings is very low considering the total liabilities of the Parent Bank. As the Parent Bank is a development and investment bank, it obtains most of the funding from abroad.

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Parent Bank screens many risk control ratio including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and top management, the Board of Directors and the Audit Committee are informed of these risks.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (*)	Total
Assets							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-	-	345.040	345.040
Banks	346.369	59.422	-	-	-	15.513	421.304
Financial Assets at Fair Value Through Profit and Loss	8.638	13.816	16.777	18.124	1.697	1.196	60.248
Money Market Placements	50	-	-	-	-	-	50
Available-for-Sale Financial Assets	995.066	721.674	474.783	530.712	199.794	51.029	2.973.058
Loans	1.467.507	3.460.688	3.517.943	519.443	30.518	52.999	9.049.098
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (**)	3.099	4.495	-	-	-	582.824	590.418
Total Assets	**2.820.729**	**4.260.095**	**4.009.503**	**1.068.279**	**232.009**	**1.048.601**	**13.439.216**
Liabilities							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	1.810.249	-	45.955	-	-	-	1.856.204
Miscellaneous Payables	-	-	-	-	-	89.769	89.769
Marketable Securities Issued	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	3.019.458	3.231.546	2.215.319	226.919	538.554	-	9.231.796
Other Liabilities (***)	24.398	3.323	12.895	22.802	440	2.197.589	2.261.447
Total Liabilities	**4.854.105**	**3.234.869**	**2.274.169**	**249.721**	**538.994**	**2.287.358**	**13.439.216**
Balance Sheet Long Position	-	1.025.226	1.735.334	818.558	-	-	3.579.118
Balance Sheet Short Position	(2.033.376)	-	-	-	(306.985)	(1.238.757)	(3.579.118)
Off-Balance Sheet Long Position	117.536	88.022	19.288	-	39.418	-	264.264
Off-Balance Sheet Short Position	-	-	-	(279.007)	-	-	(279.007)
Total Position	**(1.915.840)**	**1.113.248**	**1.754.622**	**539.551**	**(267.567)**	**(1.238.757)**	**(14.743)**

(*) Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

(**) Finance lease receivables amounting to TL 4.518 are presented in "Other Assets" on the basis of related maturities.

(***) Borrower funds amounting to TL 5.954 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments: %

	Euro	USD	Yen	TL
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-
Banks	2,97	3,31	-	8,00
Financial Assets at Fair Value Through Profit and Loss	-	-	-	10,61
Money Market Placements	-	-	-	9,00
Available-for-Sale Financial Assets	5,45	6,73	-	9,51
Loans	3,77	4,16	-	9,37
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,51	0,88	-	6,82
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds	0,50	0,50	-	4,00
Funds Provided From Other Financial Institutions	0,89	1,11	-	9,80

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items of prior period (based on repricing dates)

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (*)	Total
Assets							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-	-	132.666	132.666
Banks	22.054	333.221	43.804	-	-	40.996	440.075
Financial Assets at Fair Value Through Profit and Loss	6.182	11.103	9.022	5.686	5.739	3.437	41.169
Money Market Placements	199	-	-	-	-	-	199
Available-for-Sale Financial Assets	979.951	726.647	483.844	377.504	275.789	38.527	2.882.262
Loans	1.098.707	2.467.258	2.819.258	357.741	40.472	30.783	6.814.219
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (**)	8.282	7.585	793	37	-	530.031	546.728
Total Assets	**2.115.375**	**3.545.814**	**3.356.721**	**740.968**	**322.000**	**776.440**	**10.857.318**
Liabilities							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	1.499.687	2.164	777	-	-	-	1.502.628
Miscellaneous Payables	-	-	-	-	-	112.830	112.830
Marketable Securities Issued	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	2.435.160	2.792.656	1.564.704	84.866	241.344	-	7.118.730
Other Liabilities (***)	10.875	380	1.989	7.941	9.563	2.092.382	2.123.130
Total Liabilities	**3.945.722**	**2.795.200**	**1.567.470**	**92.807**	**250.907**	**2.205.212**	**10.857.318**
Balance Sheet Long Position	-	750.614	1.789.251	648.161	71.093	-	3.259.119
Balance Sheet Short Position	(1.830.347)	-	-	-	-	(1.428.772)	(3.259.119)
Off-Balance Sheet Long Position	73.921	56.549	-	9.960	-	-	140.430
Off-Balance Sheet Short Position	-	-	(82.257)	-	(52.096)	-	(134.353)
Total Position	**(1.756.426)**	**807.163**	**1.706.994**	**658.121**	**18.997**	**(1.428.772)**	**6.077**

(*) Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

(**) Finance lease receivables amounting to TL 9.432 are presented in "Other Assets" on the basis of related maturities.

(***) Borrower funds amounting to TL 9.745 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments in prior period: %

	Euro	USD	Yen	TL
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-
Banks	3,52	-	-	7,75
Financial Assets at Fair Value Through Profit and Loss	-	7,00	-	8,79
Money Market Placements	-	-	-	4,75
Available-for-Sale Financial Assets	5,36	6,49	-	9,04
Loans	3,75	4,25	-	10,32
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,76	1,02	-	5,62
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds	1,00	1,00	-	6,50
Funds Provided From Other Financial Institutions	1,18	1,19	-	6,62

The interest rate risk of the banking book items

Interest rate risk caused by banking book accounts includes, Receivables from Central Bank, Receivables from Money Markets, Receivable from Banks, Available for Sale Financial Assets, Receivables from Reverse Repurchase Agreement, Receivables from Loans, Held to Maturity Investments and Other Receivables, which are monitored in banking book, in assets and includes Payables to Central Bank in banking accounts, Payables to Money Markets, Payables to Banks, Funds Provided from Repurchase Agreement, Securities Issued by the Bank, Payables to Loans, Subordinated Debts and Other Debts which are monitored in banking book accounts in liabilities. All derivative instruments are recorded in trading book accounts. FR400AS, in mandatory reports list of BRSA, is prepared and reported each month.

In accordance with the communiqué on "Standard Shock Measurement and Evaluation Method of the Interest Rate Risk in Banking Accounts", economic valuation differences of the Parent Bank arising from fluctuations on interest rates, in different currencies are presented in the table below.

Current Period			
Currency	**Applied Shock (+/- x basis point)**	**Revenue/ Loss**	**Revenue/Shareholders' Equity – Loss/ Shareholders' Equity**
TL	+500 / (400) basis point	(60.344) / 54.394	(3,0%) / 2,7%
Euro	+200 / (200) basis point	13.280 / (20.955)	0,7% / (1,0) %
US Dollar	+200 / (200) basis point	(9.590) / 4.765	(0,5%) / 0,2%
Total (for Negative Shocks)		**38.204**	**1,9%**
Total (for Positive Shocks)		**(56.654)**	**(2,8%)**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

The interest rate risk of the banking book items (continued)

Prior Period			
Currency	**Applied Shock (+/- x basis point)**	**Revenue/ Loss**	**Revenue/Shareholders' Equity – Loss/ Shareholders' Equity**
TL	+500 / (400) basis point	(44.237) / 39.488	(2,4%) / 2,2%
Euro	+200 / (200) basis point	7.213 / (10.657)	0,4% / (0,6%)
US Dollar	+200 / (200) basis point	(55.064) / 44.673	(3,0%) / 2,5%
Total (for Negative Shocks)		**73.504**	**4,1%**
Total (for Positive Shocks)		**(92.088)**	**(5,0%)**

Interest rate sensitivity

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Parent Bank screens many risk control ratios including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and upper management, Board of Directors and Audit Committee are informed of these risks.

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 decrease 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 increase on the profit and shareholders' equity change would have been TL (1.659).

The Group's available for sale portfolio in the current period increased approximately by 7% compared to prior period and the market value increased approximately by 3%. In addition to this, foreign exchange assets in the Parent Bank's portfolio are approximately 13% of the portfolio in the current period while this ratio was 16% in the prior period in terms of fair value.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VII. Explanations related to consolidated stock position risk

The Group is exposed to equity shares risk arising from investments on firms traded in Borsa Istanbul (BIST). Share certificate investments are almost used for trading purpose. However, these investments are not actively bought/sold by the Group. The Group classified its share certificate investments both as available for sale and as trading securities and net profit/loss of the Group is not affected unless the Group sell share certificates in portfolio of available for sale.

Equity shares are recognized according to “TAS 39- Financial Instruments: Recognition and Measurement”. Trading securities in an active market (in exchange market) are reflected to financial statements with fair value taking into account of quoted securities on exchange market. Non-trading securities in an active market (in exchange market) are followed up according to the acquisition cost and recorded by considering impairment.

Equity shares risk due from banking book

Below is the comparison table of the Group’s share certificate instruments’ book value, fair value and market value.

Current Period	Comparison		
Share Certificate Investments	**Book Value**	**Fair Value**	**Market Value**
Investment in Shares-Grade A	**10.735**	**-**	**10.735**
Quoted	10.735	-	10.735

Prior Period	Comparison		
Share Certificate Investments	**Book Value**	**Fair Value**	**Market Value**
Investment in Shares-Grade A	**16.772**	**-**	**16.772**
Quoted	16.772	-	16.772

On the basis of the following table, private equity investments in sufficiently diversified portfolios, type and amount of other risks, cumulative realized gains and losses arising from selling and liquidation in the current period, total unrealized gains and losses, total revaluation increases of trading positions on stock market and their amount that included to core capital and supplementary capital are shown.

Current Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio		**Total**	**Included in Supplementary Capital**	**Total**	**Included in Core Capital**	**Included in Supplementary Capital**
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	(497)	-	-	223	-	100
Other Share Certificates	-	-	-	-	-	-
Total	**(497)**	**-**	**-**	**223**	**-**	**100**

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VII. Explanations related to consolidated stock position risk (continued)

Equity shares risk due from banking book (continued)

Prior Period	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses		
Portfolio		**Total**	**Included in Supplementary Capital**	**Total**	**Included in Core Capital**	**Included in Supplementary Capital**
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	(1.291)	-	-	2.592	-	1.166
Other Share Certificates	-	-	-	-	-	-
Total	**(1.291)**	**-**	**-**	**2.592**	**-**	**1.166**

VIII. Explanations related to the consolidated liquidity risk

The Parent Bank's future cash flows and current positions are taken into consideration for managing the market and liquidity risks. The Parent Bank does not invest into illiquid markets and instruments. The liquidity ratios are followed up and the maturity match and the coverage of liquidity need are targeted in the context of asset-liability management. Although the Parent Bank started to perform tests to calculate liquidity risk with internal models, the risk is still followed up basically by arranging the risks with respect to (holding period) data.

For the purpose of meeting the liquidity requirement, the Parent Bank chooses one of the three or more of the following; disposing liquid assets, increasing short-term borrowing, decreasing illiquid assets or increasing capital. The Parent Bank's liquidity management is implemented by meeting all the obligations on time considering the Parent Bank's reputation. The cash flow projections and the fund requirement predictions are made by using adverse scenarios to determine liquidity risk under urgent and unexpected circumstances.

The Parent Bank meets its short term liquidity requirements with repurchase agreements and inter-bank money market operations. The Parent Bank may also use its available for sale portfolio for urgent liquidity requirement. The Parent Bank meets its long term liquidity needs from the international institutions through borrowings.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Parent Bank. For the purposes of monitoring and assessing the liquidity position of the Parent Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year 2011 and 2012 are as follows:

	First Maturity Segment (Weekly)		Second Maturity Segment (Monthly)	
Current Period	**FC**	**FC + TL**	**FC**	**FC + TL**
Average (%)	109,06	140,86	112,67	138,53
Prior Period	**FC**	**FC + TL**	**FC**	**FC + TL**
Average (%)	120,33	165,47	117,90	154,16

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VIII. Explanations related to the consolidated liquidity risk (continued)

Presentation of assets and liabilities according to their remaining maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed (*)	Total
Current Period								
Assets								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	78.261	250.283	-	16.496	-	-	-	345.040
Banks	15.513	346.369	59.422	-	-	-	-	421.304
Financial Assets at Fair Value Through Profit and Loss	1.196	1.478	8.479	16.603	28.932	3.560	-	60.248
Money Market Placements	-	50	-	-	-	-	-	50
Financial Assets Available-for-Sale	-	111.624	291.689	676.121	1.035.075	807.520	51.029	2.973.058
Loans	52.999	451.561	229.301	1.562.639	4.795.432	1.957.166	-	9.049.098
Held-to-Maturity Investments	-	-	-	-	-	-	-	-
Other Assets (**)	438	3.099	3.075	1.420	-	-	582.386	590.418
Total Assets	**148.407**	**1.164.464**	**591.966**	**2.273.279**	**5.859.439**	**2.768.246**	**633.415**	**13.439.216**
Liabilities								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	-	408.063	143.750	849.876	3.465.068	4.365.039	-	9.231.796
Money Market Borrowings	-	1.810.249	-	45.955	-	-	-	1.856.204
Securities Issued	-	-	-	-	-	-	-	-
Miscellaneous Payables	9.332	-	-	-	-	-	80.437	89.769
Other Liabilities (***)	17.073	7.278	3.323	12.906	22.802	476	2.197.589	2.261.447
Total Liabilities	**26.405**	**2.225.590**	**147.073**	**908.737**	**3.487.870**	**4.365.515**	**2.278.026**	**13.439.216**
Liquidity Gap	**122.002**	**(1.061.126)**	**444.893**	**1.364.542**	**2.371.569**	**(1.597.269)**	**(1.644.611)**	**-**
Prior Period								
Total Assets	103.264	579.630	578.222	1.561.530	5.372.622	2.093.492	568.558	**10.857.318**
Total Liabilities	12.097	1.769.723	121.817	546.520	2.595.519	3.624.027	2.187.615	**10.857.318**
Liquidity Gap	**91.167**	**(1.190.093)**	**456.405**	**1.015.010**	**2.777.103**	**(1.530.535)**	**(1.619.057)**	**-**

(*) Other assets and shareholders' equity, provisions and tax liability, which are necessary and cannot be converted into cash in the near future for the Bank's ongoing activities, such as tangible and intangible assets, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

(**)Finance lease receivables amounting to TL 4.518 are presented in "Other Assets" on the basis of related maturities.

(***)Borrower funds amounting to TL 5.954 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

VIII. Explanations related to the consolidated liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

In compliance with the Turkish Financial Reporting Standard No.7, the following table indicates the maturities of the Group's major financial liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of capital outflows without discounting the financial liabilities.

Current Period	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Adjustments**	**Total**
Liabilities							
Funds Provided from Other Financial Institutions	481.658	152.117	906.042	3.712.473	4.599.703	(560.149)	9.291.844
Money Market Borrowings	1.811.557	-	46.665	-	-	(1.777)	1.856.445
Funds	5.954	-	-	-	-	-	5.954
Total	**2.299.169**	**152.117**	**952.707**	**3.712.473**	**4.599.703**	**(561.926)**	**11.154.243**

Prior Period	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Adjustments**	**Total**
Liabilities							
Funds Provided from Other Financial Institutions	278.625	121.181	747.445	2.798.639	3.841.923	(669.083)	7.118.730
Money Market Borrowings	1.501.255	2.168	779	-	-	(1.574)	1.502.628
Funds	9.745	-	-	-	-	-	9.745
Total	**1.789.625**	**123.349**	**748.224**	**2.798.639**	**3.841.923**	**(670.657)**	**8.631.103**

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

Current Period	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Adjustments**	**Total**
Swap Contracts	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
Futures Transactions	-	-	-	-	-	-	-
Options	135.566	130.116	301.372	237.706	-	-	804.760
Other	-	-	-	-	-	-	-
Total	**773.134**	**966.893**	**634.635**	**2.311.862**	**473.557**	**3.498**	**5.163.579**

Prior Period	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**Over 5 Years**	**Adjustments**	**Total**
Swap Contracts	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
Futures Transactions	-	-	-	-	-	-	-
Options	61.286	27.678	30.726	31.199	-	-	150.889
Other	-	-	-	-	-	-	-
Total	**877.526**	**137.264**	**331.407**	**1.042.052**	**587.097**	**3.366**	**2.978.712**

IX. Explanations related to consolidated securitization positions

None.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to consolidated credit risk mitigation techniques

Offsetting is not used as a credit risk mitigation technique. In assessments within the scope of credit risk mitigation techniques, using methods in regard to valuation and management of collaterals are realized in parallel with communiqué relating to Credit Risk Mitigation Techniques. Financial collaterals are evaluated on a daily basis in the Parent Bank. Depending on the comprehensive financial collateral approach, risk mitigating effects of the collaterals are considered through the standard volatility adjustments. Value of the real estates subject to the collateral is determined at least once a year for commercial real estates and determined at least triennially for residential real estates. In the cases that significant changes in market conditions appear, the review is carried out at more frequent intervals. Within the communiqué, as a matter of credit risk mitigation techniques, only residences and commercial real estates (Warehouse, School, Hospital, Office and Store) which are not used for production purposes and can provide rental income are taken into consideration. In addition, land, field and orchard lands are also considered within same concept. Value of the real estates is assessed by the real estate appraisal companies, which are included in the list to provide valuation service by the CMB. Within the credit risk mitigation techniques, major collaterals that can be used by the Parent Bank are financial collaterals (Treasury Bills, Government Bonds, Cash, Deposit Pledges, Gold, Stock Pledges), guarantees and mortgages. As of 31 December 2013, while guarantees and mortgages are used as credit risk mitigation technique, credit derivatives are not used. As of 31 December 2013, risk amounts which credit risk mitigation techniques are used are shown below the table according to risk types.

Collaterals which are grouped according to risk types

Current Period **Risk Types**	**Amount (*)**	**Financial Collaterals**	**Other / Physical Collaterals**	**Guarantees and credit derivatives**
Contingent and Non-Contingent Claims on Sovereigns	3.145.346	221.426	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	9.660	40	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	1.593	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	3.953.729	1.329.327	-	-
Contingent and Non-Contingent Claims on Corporates	11.652.551	40.185	-	11.168
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	315.648	-	-	-
Past Due Loans	-	-	-	
Higher-Risk Categories Defined by Agency	48	-	-	-
Securities Secured by Mortgage	-	-	-	-
Securitization Exposures	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	92.833	-	-	-
Other Claims	388.606	44.401	-	-
Total	**19.563.014**	**1.635.379**	**-**	**11.168**

(*)Includes risk amounts before the effect of credit risk mitigation.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

X. Explanations related to consolidated credit risk mitigation techniques (continued)

Collaterals which are grouped according to risk types (continued)

Prior Period **Risk Types**	**Amount (*)**	**Financial Collaterals**	**Other / Physical Collaterals**	**Guarantees and credit derivatives**
Contingent and Non-Contingent Claims on Sovereigns	3.433.261	830.423	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	26.419	4.632	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	2.599.335	166.497	-	-
Contingent and Non-Contingent Claims on Corporates	9.072.669	74.212	-	24.756
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	236.926	79.675	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	1.078	-	1.078	-
Past Due Loans	-	-	-	-
Higher-Risk Categories Defined by Agency	16	-	-	-
Securities Secured by Mortgage	-	-	-	-
Securitization Exposures	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	205.611	104.934	-	-
Other Claims	342.485	-	-	-
Total	**15.920.800**	**1.260.373**	**1.078**	**24.756**

(*)Includes risk amounts before the effect of credit risk mitigation.

Main guarantors and their credibility

Main Guarantors (*)	**Fitch Rating**
Alternatif Bank A.Ş.	BBB
Bank Pozitif Kredi Ve Kalkınma Bankası A.Ş.	BBB-
Denizbank A.Ş.	BBB-
Şekerbank T.A.Ş.	BB-
T. İş Bankası A.Ş.	BBB
T.Garanti Bankası A.Ş.	BBB
TC Ziraat Bankası A.Ş.	BBB-
Tekstil Bankası A.Ş	B+
Yapı Ve Kredi Bankası A.Ş.	BBB

(*) Guarantors have risk mitigation effect on 31 December 2013 capital adequacy computation.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies

The purpose of the risk management system is to provide identifying, measuring, reporting, monitoring and controlling the risk exposure on both unconsolidated and consolidated basis, through the policies determined related to controlling the risk-return structure of future cash flows of the Bank and observing, controlling, changing if needed, application procedures, limits and policies and determine the objectives to be achieved through the internal capital adequacy assessment process. In this context, “TSKB Risk Management Policies” and “TSKB Capital Adequacy Policies” are prepared and has become effective following the approval of the Board of Directors.

The Board of Directors of the Bank determine and regularly review the risk level that the Bank is willing to bear to achieve its objectives, considering the risk capacity of Parent Bank.

Risk management process organized within the framework of risk management regulations and served to create a common risk culture throughout the Bank, is in a structure that these risks are described in line with the international regulations and are measuring, analyzing, following, monitoring and reporting within this framework. Within the framework of the mentioned structure, Bank’s Risk Management, continues to activities depending on the Audit Committee, which is established to help the audit and monitoring activities of the Board of Directors in accordance with Banking Law No: 5411 and “Regulation on Internal Systems of Banks” communiqué of Banking Regulation and Supervision Agency. Risk Management is responsible for preparing risk management strategies and policies followed by the Parent Bank, implementation, identification, measurement, monitoring, analysis, evaluation and reporting of risk management system activities.

Risk Management monitors the compliance of the risks in line with the Bank’s policies and standards and limits, and determines violations, analyzes the size of the risk by developing various scenarios, develops and integrates systems providing measuring, monitoring and reporting the risks.

Within the scope of “TSKB Risk Management Policies” the Bank is mainly exposed to credit risk, market risk, operational risk, currency risk, interest rate risk and liquidity risk.

Credit risk management policy

Credit risk is the possibility of incurring losses due to the credit customer or the counterparty, with whom the Bank has made an agreement with, does not fulfil its obligations appropriately or is not able to meet these obligations.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Credit risk management policy (continued)

At Parent Bank, the purpose of credit risk management is to maximize the risk adjusted return of the Bank by managing the risks that the Bank may expose in line with the right parameters in a proactive approach. Although the largest and most visible source for credit risk is the loans that the Bank grants, other banking services regarding the counterparty risk also bear credit risk. In this context, all of the banking activities are assessed within the scope of credit risk.

Credit risk is measured and managed considering the maturity structure of the credit, contractual provisions of the credit and financial conditions, the risk profile structure until the end of the maturity parallel with the possible market conditions, guarantees and collaterals, internal risk ratings and the possible changes in the process of risk exposure, the concentrations (a single company, associated group of companies, industry, country, etc.) and compliance with limits determined by the Board of Directors in order to prevent these concentrations. For measuring credit risk, Internal Rating-Based Model is used in order to monitor, control and provide early warning for credit risk of the Parent Bank.

Maximum effort is expended for the fact that the limits and policies of the external and internal agreements are not so far from the limits and policies of the Parent Bank. The articles in the agreements are compelling even if they are different from existing Bank policies.

In credit risk mitigation policies and procedures, it is considered whether the total amount of credit risk mitigation tool should be taken into account is appropriate or not, also it is controlled whether the protection provided by the credit risk mitigation instruments is in compliance with the capital adequacy level. Parent Bank’s Risk Management actively involved in the measurement, analysis and monitoring process of credit risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with credit risk by the Parent Bank’s Risk Management.

Market risk management policy and currency risk management policy

Market risk is the possibility of loss that the Bank may face, in the trading book portfolio and in its on-and off-balance sheet positions arising from movements in market prices. Interest rates, foreign exchange rates, equity and commodity prices are the main market risk factors. The purpose of market risk management is to maximize the risk adjusted return of the Parent Bank by managing the risks that the Bank may expose in line with the right parameters in a proactive approach. Market risk is managed by using consistent risk measurement criteria such as fluctuation level of interest rate and/or price fluctuations and Value-at-Risk (VaR) Methods calculations, by establishing proper procedures for performing such controls and observing compliance with determined risk limits, by investigating sources of risk, learning risk and providing consistent information related with market risk to level of organizations within organization structure.

Interest rates, foreign exchange rates, equity and commodity prices are the main market risk factors and in order to control these risks vigorously and it is essential that money and capital market transactions should be “well-diversified” considering the level of risk created in terms of parameters such as maturity, currency, interest rate and other similar parameters. In addition, credit worthiness of issuers of financial instruments creating market risk is strongly taken into account. In the calculation of the market risk, the Parent Bank uses two basic approaches, BRSA Standard Method and Value at Risk (VaR) approach. The accuracy of the VaR model is sustained by applying the retrospective tests (back testing). The test mentioned is based on the comparison of calculated Value at Risk and actual losses. In addition stress tests are applied to determine the effects of the events whose probability of occurrence is low; however, loss level is high on Value at Risk. Currency risk management is measured and monitored by using the VaR model.

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Market risk management policy and currency risk management policy (continued)

The Parent Bank's Risk Management actively involved in measurement, analysis and monitoring process of market risk and currency risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with market risk by the Parent Bank's Risk Management.

Operational risk management policy

Operational risk is defined as the risk of loss due to the insufficiency of the processes, the people and the systems or defects or errors on them and external events, and compliance with laws and ethical standards are also included in this definition. These risks are managed by fulfilling special controls of the basic functional areas of the Bank's operations, establishing mechanism distributing appropriate internal audit system and authorization required by this system within the Parent Bank and by applying detailed testing and control of the Bank's all operating systems and by providing full harmony between internal and external systems and opportunity of independent data backup facility.

The Bank applies the principles of separation of duties and distribution of functions in order to reduce the risk of deliberate actions, manipulations or errors. The minimum functions that have to be separated are identified as (i) starting the process (ii) authorisation and approving, (iii) recording the process (iv) confirming the process, (v) safe custody services, (vi) monitoring and auditing, (vii) developing IT systems and activities for daily operations. The transaction information has to be recorded to the system by using IT applications at once the transactions have been completed. Measurement of operational risks carried out by the implementation of Basel II "Basic Indicator Approach" methods. Bank's Risk Management actively involved in the measurement, analysis and monitoring process of operational risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with operational risk by the Parent Bank's Risk Management.

Structural interest rate risk management policy

Structural interest rate risk is the risk of possible changes in interest rates affecting the capital of bank due to re-pricing period of interest bearing assets and liabilities banking books of the Bank and the differences at interest structuring. Structural interest rate risk is managed by providing consistent information related to structural interest rate risk to all the organization stages by using the risk measurement and criteria like the level of fluctuation in interest rates, interest shock and stress test calculations. Maturity mismatches concerning the repricing in predetermined buckets and currency mismatches of asset and liabilities are monitored and measured.Bank manages the interest rate risk by being aware of that it threats the income, capital, liquidity and reputation of the Bank and it comprises of repricing risk, yield curve risk, basis risk, spread risk and option risk.

The Bank's Risk Management actively involved in the measurement, analysis and monitoring process of structural interest rate risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with interest rate risk by the Risk Management.

Liquidity risk management policy

Liquidity risk is the risk of not meeting the balance sheet and off-balance sheet liabilites on time. Liquidity risk is also the possibility of loss that the Bank may face, when there is not sufficient cash or cash inflow to meet the cash outflow in full and in time. There are two risks as funding liquidity risk in capital markets and purchase/ sales operations and market liquidity risk in which funding liquidity risk is the risk that investment and funding requirements cannot be met on time or at a reasonable cost due to the incompatibilities in cash flows.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Liquidity risk management policy (continued)

The market liquidity risk is that no long position can be taken on time or at a reasonable cost due to the markets are not so deep, disruption and the bank cannot enter the markets easily.

It is essential to evaluate the diversification of opportunities on the basis of maturities with maximum extent in order to ensure the efficiency of liquidity management and maintain a sustainable situation. In liquidity risk management, a portfolio structure matched with the functions of generating profit from portfolio and market risk management and risk-return trade-off is constantly monitored without compromising of liquidity requirements.

Parent Bank's Risk Management actively involved in the measurement, analysis and monitoring process of liquidity risk and regular reporting is provided to the Board of Directors, the Audit Committee, top management and other departments related with liquidity risk by the Risk Management.

XII. Explanations related to presentation of financial assets and liabilities at fair value

The table below shows the carrying and fair values of the financial assets and liabilities in the consolidated financial statements of the Group.

	Carrying Value		**Fair Value**	
	Current Period	**Prior Period**	**Current Period**	**Prior Period**
Financial Assets	**12.448.028**	**10.146.187**	**12.595.443**	**10.201.695**
Money Market Placements	50	199	50	199
Banks	421.304	440.075	421.304	440.075
Available-For-Sale Financial Assets	2.973.058	2.882.262	2.973.058	2.882.262
Held-To-Maturity Investments	-	-	-	-
Loans (*)	9.053.616	6.823.651	9.201.031	6.879.159
Financial Liabilities	**11.183.723**	**7.231.560**	**11.183.723**	**7.231.560**
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds Provided From Other Financial Institutions	11.093.954	7.118.730	11.093.954	7.118.730
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	89.769	112.830	89.769	112.830

(*)Loans include financial lease receivables.

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

i- For the fair value calculation of loans, the prevailing interest rates as of the reporting date were used.

ii- For the fair value calculation of the balances with banks, the prevailing interest rates as of the reporting date were used.

iii- For the fair value calculation of held-to-maturity investments, quoted prices as of the reporting date were used.

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

SECTION FOUR (Continued)

INFORMATION ON CONSOLIDATED FINANCIAL STRUCTURE AND RISK MANAGEMENT (Continued)

XII. Explanations related to presentation of financial assets and liabilities by fair value: (continued)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and, those where the valuation techniques involves the use of non observable inputs.

The table below analyses financial instruments carried at fair value, by valuation method.

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Current Period	Level I	Level II	Level III
Financial Assets			
Financial Assets held for Trading	19.561	40.687	-
Financial Assets Available For Sale	2.125.024	807.834	40.200
Financial Liabilities			
Derivative Financial Liabilities Held For Trading	-	57.857	-

Prior Period	Level I	Level II	Level III
Financial Assets			
Financial Assets held for Trading	17.926	23.243	-
Financial Assets Available For Sale	2.200.145	660.362	21.755
Financial Liabilities			
Derivative Financial Liabilities Held For Trading	-	20.997	-

XIII. Explanations related to transactions made on behalf of others and fiduciary transactions

The Parent Bank performs trading transactions on behalf of its customers, and gives custody, administration and consultancy services. The Parent Bank does not deal with fiduciary transactions.

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

SECTION FIVE

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS

I. Explanations and disclosures related to the consolidated assets

1.a Information on cash and balances with the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Cash in TL/Foreign Currency	107	-	137	113
Balances with the Central Bank of Turkey	42.069	302.864	25.328	107.088
Other	-	-	-	-
Total	**42.176**	**302.864**	**25.465**	**107.201**

1.b Information related to the account of the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Unrestricted demand deposits	42.069	36.086	25.328	2.470
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	-	-	-
Other (*)	-	266.778	-	104.618
Total	**42.069**	**302.864**	**25.328**	**107.088**

(*)Deposits at Central Bank of Turkey held as reserve requirement.

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

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of Central Bank of Turkey, nr. 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2013 are presented in table below:

	Foreign Currency Liabilities Required Reserve Rates (%)	Turkish Lira Liabilities Required Reserve Rates (%)
Other liabilities up to 1 year maturity (including 1 year)	13,0	11,5
Other liabilities up to 3 years maturity (including 3 years)	11,0	8,0
Other liabilities longer than 3 years maturity	6,0	5,0

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

2.a Information on financial assets at fair value through profit and loss

2.a.1 Trading securities:

2.a.1.a Trading securities given as collateral or blocked:

As of the reporting date, the Group's trading securities given as collateral or blocked amounted to TL 8.674 (31 December 2012: TL 7.973).

2.a.1.b Trading securities subject to repurchase agreements:

As of the reporting date, the Group has no trading securities subject to repurchase agreements (31 December 2012: TL 199).

2.a.2 Information on financial assets designated at fair value through profit and loss:

2.a.2.a Information on financial assets designated at fair value through profit and loss given as collateral or blocked:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss given as collateral or blocked (31 December 2012: None).

2.a.2.b Financial assets designated at fair value through profit and loss subject to repurchase agreements:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss subject to repurchase agreements (31 December 2012: None).

2.b Positive differences related to derivative financial assets held-for-trading:

Derivative instruments held for trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	2.678	118	1.792	1.188
Swap Transactions	3.977	11.712	4.351	15.479
Futures Transactions	-	-	-	-
Options	-	22.202	-	433
Other	-	-	-	-
Total	**6.655**	**34.032**	**6.143**	**17.100**

3. Information on banks and foreign bank accounts

3.a Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	9.971	405.770	377.261	28.899
Foreign	-	5.563	-	33.915
Branches and head office abroad	-	-	-	-
Total	**9.971**	**411.333**	**377.261**	**62.814**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

3. Information on banks and foreign bank accounts (continued)

3.b Information on banks and foreign bank accounts:

	Unrestricted Amount		Restricted Amount	
	Current Period	**Prior Period**	**Current Period**	**Prior Period**
EU Countries	1.912	2.839	-	-
USA, Canada	2.523	30.950	-	-
OECD Countries (*)	1.128	126	-	-
Off-Shore Banking Regions	-	-	-	-
Other	-	-	-	-
Total	**5.563**	**33.915**	**-**	**-**

(*)OECD countries other than European Union countries, USA and Canada.

4. Information on financial assets available-for-sale

4.a.1 Financial assets available-for-sale subject to repurchase agreements:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Government bonds	1.497.803	-	1.021.262	-
Treasury bills	-	-	-	-
Other public sector debt securities	-	243.128	-	293.720
Bank bonds and bank guaranteed bonds	-	-	-	-
Asset backed securities	-	-	-	-
Other	-	-	-	-
Total	**1.497.803**	**243.128**	**1.021.262**	**293.720**

4.a.2 Information on financial assets available-for-sale given as collateral or blocked:

All financial assets available for sale given as collateral comprise of financial assets are issued by the Turkish Treasury. The carrying value of those assets is TL 154.631 (31 December 2012: TL 463.362).

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Share certificates	-	-	-	-
Bond, Treasury bill and similar investment securities	154.631	-	463.362	-
Other	-	-	-	-
Total	**154.631**	**-**	**463.362**	**-**

4.b Major types of available for sale financial assets:

Available for sale financial assets comprise government bonds 67,15%, Eurobonds 11,19%, and shares and other securities 21,66% (31 December 2012: government bonds 73,81%, Eurobonds 11,89% and shares and other securities 14,30%).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

4. Information on financial assets available-for-sale (continued)

4.c Information on financial assets available-for-sale:

	Current Period	Prior Period
Debt securities	2.930.864	2.846.275
Quoted on a stock exchange	2.553.421	2.396.908
Unquoted	377.443	449.367
Share certificates	65.157	48.510
Quoted on a stock exchange	10.828	16.872
Unquoted	54.329	31.638
Impairment provision(-)	(22.963)	(12.523)
Total	**2.973.058**	**2.882.262**

Net book value of unquoted available for sale share certificates is TL 40.200 (31 December 2012: TL 21.755).

5. Information on loans

5.a Information on all types of loans and advances given to shareholders and employees of the Parent Bank:

	Current Period		Prior Period	
	Cash Loans	Non-Cash Loans	Cash Loans	Non-Cash Loans
Direct loans granted to shareholders	112.840	117.413	107.017	117.413
Corporate shareholders	112.840	117.413	107.017	117.413
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	174	-	168	-
Total	**113.014**	**117.413**	**107.185**	**117.413**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans:

Current Period	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
		Amendments on Conditions of Contract			Amendments on Conditions of Contract	
Cash Loans	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other
Non-specialized loans	8.862.548	-	-	133.551	106.575	-
Corporation loans	2.489.462	-	-	6.032	6.032	-
Export loans	148.074	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	1.237.796	-	-	-	-	-
Consumer loans	174	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	4.987.042	-	-	127.519	100.543	-
Specialized loans	-	-	-	-	-	-
Other receivables	52.999	-	-	-	-	-
Total	**8.915.547**	**-**	**-**	**133.551**	**106.575**	**-**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (*) (continued):

Prior Period	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
		Amendments on Conditions of Contract			Amendments on Conditions of Contract	
Cash Loans	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other	Loans and Other Receivables (Total)	Amendments Related to the Extension of the Payment Plan	Other
Non-specialized loans	6.785.248	-	-	28.971	-	-
Corporation loans	1.765.771	-	-	11.418	-	-
Export loans	112.795	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	845.855	-	-	-	-	-
Consumer loans	168	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	4.060.659	-	-	17.553	-	-
Specialized loans	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	**6.785.248**		**-**	**28.971**	**-**	**-**

(*)The Parent Bank's finance lease receivables are TL 9.432 and TL 995 of the finance lease receivables are closely monitored.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans (continued):

Current Period **Number of amendments related to the extension of the payment plan**	**Standard Loans and Other Receivables**	**Loans and Other Receivables Under Close Monitoring**
Extended for 1 or 2 times	-	106.575
Extended for 3,4 or 5 times	-	-
Extended for more than 5 times	-	-

Prior Period **Number of amendments related to the extension of the payment plan**	**Standard Loans and Other Receivables**	**Loans and Other Receivables Under Close Monitoring**
Extended for 1 or 2 times	-	-
Extended for 3,4 or 5 times	-	-
Extended for more than 5 times	-	-

Current Period **The time extended via the amendment on payment plan**	**Standard Loans and Other Receivables**	**Loans and Other Receivables Under Close Monitoring**
0-6 Months	-	-
6 Months - 12 Months	-	89.987
1-2 Years	-	-
2-5 Years	-	-
5 Years and Over	-	16.588

Prior Period **The time extended via the amendment on payment plan**	**Standard Loans and Other Receivables**	**Loans and Other Receivables Under Close Monitoring**
0-6 Months	-	-
6 Months - 12 Months	-	-
1-2 Years	-	-
2-5 Years	-	-
5 Years and Over	-	-

In relation to the disclosure of changing the conditions of the payment plans of loans, which are followed under standard loans and other receivables and loans and receivables under close monitoring subsequent to the change in the regulation on “Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves” published in the Official Gazette No. 27947 dated 28 May 2011; the Parent Bank has provided general loan loss provision at a rate of 5% for four loan customer which is followed under close monitoring loans and other receivables and which have been extended more than 1 year.

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

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.c Maturity analysis of cash loans:

Current Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables (Total)	Amendments on Conditions of Contract	Loans and Other Receivables (Total)	Amendments on Conditions of Contract
Short-term loans and other receivables	639.816	-	-	-
Non-specialized loans	639.816	-	-	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	8.275.731	-	133.551	106.575
Non-specialized loans	8.275.731	-	133.551	106.575
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

Prior Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables (Total)	Amendments on Conditions of Contract	Loans and Other Receivables (Total)	Amendments on Conditions of Contract
Short-term loans and other receivables	329.316	-	6.330	-
Non-specialized loans	329.316	-	6.330	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	6.455.932	-	22.641	-
Non-specialized loans	6.455.932	-	22.641	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:

Current Period	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	122	52	174
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	122	52	174
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts- TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
Total	**122**	**52**	**174**

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel (continued):

Prior Period	**Short Term**	**Medium and Long Term**	**Total**
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	147	21	168
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	147	21	168
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts- TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
Total	**147**	**21**	**168**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.e Information on commercial loans with instalments and corporate credit cards:

The Parent Bank has not granted any commercial loans with instalments and corporate credit cards as of the reporting date (31 December 2012: None).

5.f Loans according to borrowers:

	Current Period	Prior Period
Public	5.366	-
Private	9.043.732	6.814.219
Total	**9.049.098**	**6.814.219**

5.g Domestic and foreign loans:

	Current Period	Prior Period
Domestic Loans	8.999.954	6.789.024
Foreign Loans	49.144	25.195
Total	**9.049.098**	**6.814.219**

5.h Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	85.560	83.374
Indirect loans granted to subsidiaries and associates	-	-
Total	**85.560**	**83.374**

5.i Specific provisions provided against loans:

	Current Period	Prior Period
Loans and receivables with limited collectability	17.327	59
Loans and receivables with doubtful collectability	6.378	5.316
Uncollectible loans and receivables	13.681	10.249
Total	**37.386**	**15.624**

The Parent Bank allocates 100 % provision for all non-performing loans regardless of the collaterals.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net):

5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Current Period			
(Gross amounts before provisions)	-	-	9.515
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	-	9.515
Prior Period			
(Gross amounts before provisions)	-	5.315	4.420
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	5.315	4.420

5.j.2 Movement of non-performing loans:

	III. Group	IV. Group	V. Group
Current Period	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Prior Period End Balance	**59**	**5.316**	**10.249**
Additions (+)	23.642	46	339
Transfers from Other Categories of Non-performing Loans (+)	-	6.374	5.358
Transfers to Other Categories of Non-performing Loans (-)	(6.374)	(5.358)	-
Collections (-)	-	-	(2.078)
Write-offs (-)	-	-	(187)
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	(187)
Current Period Ending Balance	**17.327**	**6.378**	**13.681**
Specific Provisions (-)	(17.327)	(6.378)	(13.681)
Net Balance on Balance Sheet	-	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net) (continued):

5.j.2 Movement of non-performing loans (continued):

	III. Group	**IV. Group**	**V. Group**
Prior Period	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Prior Period End Balance	**5.313**	**5.978**	**16.407**
Additions (+)	59	1	553
Transfers from Other Categories of Non-performing Loans (+)	-	-	-
Transfers to Other Categories of Non-performing Loans (-)	-	-	-
Collections (-)(*)	(5.313)	(663)	(6.681)
Write-offs (-)	-	-	(30)
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	(30)
Current Period Ending Balance	**59**	**5.316**	**10.249**
Specific Provisions (-)	(59)	(5.316)	(10.249)
Net Balance on Balance Sheet	-	-	-

(*)Transfer to 2nd Group Receivables amounting to TL 4.443 is included in "Collections" line.

5.j.3 Information on foreign currency non-performing loans and other receivables:

	III. Group	**IV. Group**	**V. Group**
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Current Period			
Period End Balance	15.099	-	5.374
Specific Provision (-)	(15.099)	-	(5.374)
Net Balance on Balance Sheet	-	-	-
Prior Period			
Period End Balance	56	5.314	82
Specific Provision (-)	(56)	(5.314)	(82)
Net Balance on Balance Sheet	-	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net) (continued):

5.j.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful	Uncollectible Loans and Receivables
Current Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	17.327	6.378	13.669
Specific Provision Amount (-)	(17.327)	(6.378)	(13.669)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	12
Specific Provision Amount (-)	-	-	(12)
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	59	5.316	9.836
Specific Provision Amount (-)	(59)	(5.316)	(9.836)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	413
Specific Provision Amount (-)	-	-	(413)
Other Loans and Receivables (Net)	-	-	-

5.k Main principles of liquidating non performing loans and receivables:

If there are collaterals received complying Article 9 of the Communiqué regarding "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves", these collaterals are converted into cash immediately using either administrative or legal procedures in order to collect those receivables. In cases of no collaterals, several financial investigations are made to determine whether any property holdings are subsequently acquired by applying legal procedures, even if there is evidence of insolvency for the debtor. Before and after the beginning of the liquidation process; the Parent Bank management makes investigations on the financial data of the debtor companies. As a result of these investigations, if the Parent Bank management agrees that the companies show any indication of operating on an ongoing basis and probably are going to have contributions in the economical environment in the future; the Parent Bank management tries to make the collection through rescheduling the payment terms.

5.l Explanations about the write-off policies from the assets:

If there is no collateral against uncollectible loans and receivables and if the receivable amount is less than the cost; tax, fee, and other expenses, made for the legal actions, the receivable is written off from the assets upon the request of the Credit Monitoring Department and the approval of the General Management.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.l Explanations about the write-off policies from the assets (continued)

However, if there is a collateral against the receivable and after all the costs of legal actions are fulfilled, and if there is still a part of receivables not collected, the receivables are written off after getting of pledge shortage and evidence of insolvency subsequently.

5.m Other explanations and disclosures:

Current Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired loans	7.311.914	1.684.011	174	52.999	9.049.098
Past due not impaired loans	-	-	-	-	-
Individually impaired loans	12.352	23.901	-	1.133	37.386
Total	**7.324.266**	**1.707.912**	**174**	**54.132**	**9.086.484**
Less: allowance for individually impaired loans (-)	(12.352)	(23.901)	-	(1.133)	(37.386)
Total allowance for impairment	(12.352)	(23.901)	-	(1.133)	(37.386)
Total Net	**7.311.914**	**1.684.011**	**174**	**52.999**	**9.049.098**

Prior Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired loans	5.165.193	1.613.950	168	33.923	6.813.234
Past due not impaired loans	-	985	-	-	985
Individually impaired loans	7.288	6.900	-	1.436	15.624
Total	**5.172.481**	**1.621.835**	**168**	**35.359**	**6.829.843**
Less: allowance for individually impaired loans (-)	(7.288)	(6.900)	-	(1.436)	(15.624)
Total allowance for impairment	(7.288)	(6.900)	-	(1.436)	(15.624)
Total Net	**5.165.193**	**1.614.935**	**168**	**33.923**	**6.814.219**

A reconciliation of the allowance for impairment losses and advances by classes is as follows:

	Corporate	SME	Consumer	Other	Total
At 1 January 2013	**(7.288)**	**(6.900)**	**-**	**(1.436)**	**(15.624)**
Charge for the year	(6.453)	(17.301)	-	(273)	(24.027)
Recoveries	976	300	-	802	2.078
Amounts written off	-	-	-	187	187
Interest accrued on impaired loans and other receivables	-	-	-	-	-
At 31 December 2013	**(12.352)**	**(23.901)**	**-**	**(1.133)**	**(37.386)**
	Corporate	**SME**	**Consumer**	**Other**	**Total**
At 1 January 2012	**(13.014)**	**(13.236)**	**-**	**(1.448)**	**(27.698)**
Charge for the year	(125)	(62)	-	(426)	(613)
Recoveries(*)	5.851	6.398	-	408	12.657
Amounts written off	-	-	-	30	30
Interest accrued on impaired loans and other receivables	-	-	-	-	-
At 31 December 2012	**(7.288)**	**(6.900)**	**-**	**(1.436)**	**(15.624)**

(*)Transfer to 2nd Group Receivables amounting to TL 4.443 is included in "Recoveries" line.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.m Other explanations and disclosures (continued):

A breakdown of the allowance for impairment losses is given below;

Current Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(12.352)	(23.901)	-	(1.133)	(37.386)
Gross amount of loans, individually determined to be impaired (before deducting any individually assessed impairment allowance)	12.352	23.901	-	1.133	37.386

Prior Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(7.288)	(6.900)	-	(1.436)	(15.624)
Gross amount of loans, individually determined to be impaired (before deducting any individually assessed impairment allowance)	7.288	6.900	-	1.436	15.624

Movements in the allowance for impairment losses and advances are as follows:

	Current Period	Prior Period
At 1 January	**15.624**	**27.698**
Charge for the year	24.027	613
Recoveries	(2.078)	(12.657)
Amounts written off	(187)	(30)
Interest accrued on impaired loans and other receivables	-	-
At 31 December	**37.386**	**15.624**
Individual impairment	(37.386)	(15.624)
Gross amount of loans, individually determined to be impaired (before deducting any individually assessed impairment allowance)	37.386	15.624

Aging analysis of past due but not impaired financial assets per class of financial statements:

Current Period	Less than 30 Days	31- 60 Days	61- 90 Days	Over 91 Days	Total
Loans and Receivables					
Corporate Loans	-	-	-	-	-
SME Loans	-	-	-	-	-
Consumer Loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Prior Period	Less than 30 Days	31- 60 Days	61- 90 Days	Over 91 Days	Total
Loans and Receivables					
Corporate Loans	-	-	-	-	-
SME Loans	985	-	-	-	985
Consumer Loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**985**	**-**	**-**	**-**	**985**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.m Other explanations and disclosures (continued):

Of the total aggregate amount of gross past due but not yet impaired loans and other receivables, the fair value of collaterals, capped with the respective outstanding loan balance as of are shown below:

	Current Period	Prior Period
Residential, commercial and industrial property	-	985
Financial assets	-	-
Other (bailment, pledge and charge on ship and vehicle)	-	-
Total	**-**	**985**

Loans and other receivables amounting to TL 7.799.180 have floating interest rates (31 December 2012: TL 6.184.223) and the remaining TL 1.249.918 have fixed interest rates (31 December 2012: TL 629.996).

6. Information on held-to-maturity investments

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

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net):

7.a.1 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated associates and reason of unconsolidating:

Unconsolidated non-financial associates are valued at cost.

7.a.2 Information on unconsolidated associates:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	Terme Metal Sanayi ve Ticaret A.Ş. (Terme)	İstanbul/Türkiye	17,83	18,76
2	Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. (Ege Tarım)	İzmir/Türkiye	10,00	20,00

Non-financial associates, as above, are not consolidated in accordance with the Communiqué on "Preparing Consolidated Financial Statements of the Banks".

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
Terme (*)	13.764	3.715	563	239	-	197	230	-
Ege Tarım (*)	11.346	11.265	9.102	65	-	(1.210)	(353)	-

(*) Represents for the period ended 30 September 2013 financial statements. Prior year profit/loss is obtained from un-reviewed 30 September 2012 financial statements.

Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

Information on associates purchased in the current period

The Bank made TL 240 capital commitment with a share of 10% and TL 120 of which was paid to its associate on 31 December 2012, TL 120 was paid on 29 March 2013 as a result of the decision of increasing the share capital of Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. from TL 11.152 to 13.552 in the Extraordinary General Meeting dated 22 November 2012.

7.a.3 Information on the consolidated associates:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	İş Faktoring A.Ş. (İş Faktoring)	İstanbul/Türkiye	21,75	100,00
2	İş Finansal Kiralama A.Ş. (İş Finansal)	İstanbul/Türkiye	28,56	57,36
3	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş (İş Girişim)	İstanbul/Türkiye	16,67	57,67

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net) (continued)

7.a.3 Information on the consolidated associates (continued):

		Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
1	İş Faktoring	971.615	69.461	648	58.840	15	11.944	4.574	-
2	İş Finansal	3.492.581	603.638	2.514	193.803	64	39.589	18.776	115.139
3	İş Girişim	420.681	268.703	84.272	-	-	68.664	68.403	28.772

	Current Period	**Prior Period**
Balance at the Beginning of the Period	**210.046**	**190.472**
Movements During the Period	24.942	19.574
Purchases	-	-
Bonus Shares Received	-	-
Current Year Share of Profit	31.974	20.271
Sales	-	-
Revaluation Increase	-	(697)
Provision for Impairment	(7.032)	-
Balance at the End of the Period	**234.988**	**210.046**
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

Information on associates purchased in the current period

In the current period the Parent Bank has obtained bonus shares of İş Finansal Kiralama A.Ş. amounting to TL 10.100 with capital increase of TL 35.365 and has obtained bonus shares of İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. amounting to TL 1.449 with capital increase of TL 8.694 and has obtained bonus shares of İş Faktoring A.Ş. amounting to TL 5.220 with capital increase of TL 24.000.

7.a.4 Sectoral information of consolidated associates and the related carrying amounts in the legal books:

	Current Period	**Prior Period**
Banks	-	-
Insurance Companies	-	-
Factoring Companies	30.644	26.348
Leasing Companies	162.817	149.441
Financial Service Companies	-	-
Other Financial Associates	41.527	34.257

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net) (continued)

7.a.5 Information on consolidated associates quoted on stock market:

	Current Period	Prior Period
Associates Quoted on Domestic Stock Markets	204.344	183.698
Associates Quoted on Foreign Stock Markets	-	-

8. Information related to subsidiaries (net)

8.a.1 Information related to equity component of subsidiaries:

	YFAŞ	TSKGYO
	Current Period	Current Period
CORE CAPITAL		
Paid-in Capital	61.000	150.000
Inflation Adjustment to Share Capital	775	-
Share Premium	-	593
Legal Reserves	4.400	5.739
Current and Prior Years' Profit / Loss	5.366	53.671
Leasehold Improvements (-)	(1.665)	-
Intangible Assets (-)	(593)	(6)
Total Core Capital	**69.283**	**209.997**
SUPPLEMENTARY CAPITAL	**1.138**	**-**
CAPITAL	**70.421**	**209.997**
NET AVAILABLE CAPITAL	**70.421**	**209.997**

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

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.1 Information related to equity component of subsidiaries (continued):

	YFAŞ	TSKGYO (*)
	Prior Period	**Prior Period**
CORE CAPITAL		
Paid-in Capital	61.000	150.000
Inflation Adjustment to Share Capital	775	-
Share Premium	-	593
Legal Reserves	4.598	5.721
Current and Prior Years' Profit / Loss	827	79.513
Leasehold Improvements (-)	(675)	-
Intangible Assets (-)	(394)	(3)
Total Core Capital	**66.131**	**235.824**
SUPPLEMENTARY CAPITAL	**80**	**-**
CAPITAL	**66.211**	**235.824**
NET AVAILABLE CAPITAL	**66.211**	**235.824**

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry. Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items. Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves. Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the Article of 519 of the Turkish Commercial Code No 6102.

There is no internal capital adequacy assessment approach for the subsidiaries.

8.a.2 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated subsidiaries and reason of unconsolidating and needed capital if they are subject to capital requirement:

TSKB Gayrimenkul Değerleme A.Ş., TSKB Gayrimenkul Danışmanlık A.Ş. and Sürdürülebilir Danışmanlık A.Ş. are valued at cost and are not consolidated since they are not financial subsidiaries. Unconsolidated subsidiaries of the Parent Bank are not subject to minimum capital requirement.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.3 Information related to unconsolidated subsidiaries:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)	İstanbul /Türkiye	99,99	99,99
2	TSKB Gayrimenkul Danışmanlık A.Ş.(TGD A.Ş.)	İstanbul/Türkiye	46,58	100,00
3	Sürdürülebilir Danışmanlık A.Ş.	İstanbul/Türkiye	-	96,00

		Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
1	TSKB GMD	10.972	8.395	1.265	124	-	2.177	2.568	-
2	TGD A.Ş.	559	567	-	-	-	(7)	(215)	-
3	SD A.Ş.	373	333	17	31	-	31	33	-

Subsidiaries disposed in the current period

In the current period, the Parent Bank has not disposed any subsidiaries.

Subsidiaries purchased in the current period

In the current period, the Parent Bank has not purchased any subsidiaries.

8.a.4 Information related to consolidated subsidiaries:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	Yatırım Finansman Menkul Değerler A.Ş.(YFAŞ.)	Istanbul /Turkey	95,78	98,51
2	TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO)	Istanbul/Turkey	59,00	66,84

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
YFAŞ	486.249	73.110	4.226	24.969	803	2.966	2.725	-
TSKB GYO	376.188	208.995	335.483	1.117	-	(26.167)	17.048	66.375

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.4 Information related to consolidated subsidiaries (continued):

Unconsolidated movement related subsidiaries subjected to consolidation is as follows:

	Current Period	Prior Period
Balance at the Beginning of the Period	**135.856**	**118.276**
Movements During the Period	(1.770)	17.580
Purchases	-	-
Bonus Shares Obtained	-	7.184
Current Year Shares of Profit	-	-
Sales (*)	-	(6.548)
Revaluation Increase	-	16.944
Provision for Impairment	(1.770)	-
Balance At the End of the Period	**134.086**	**135.856**
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

(*) As of 31 December 2012, TSKB Yatırım Ortaklığı A.Ş. is excluded from subsidiaries due to merger with İş Yatırım Ortaklığı A.Ş..Cost of TSKB Yatırım Ortaklığı A.Ş. is presented in "Sales" line.

According to the principles of consolidation accounting, the cost values of the consolidated subsidiaries have been eliminated from the accompanying consolidated financial statements.

Subsidiaries disposed in the current period

In the current period, the Parent Bank has not disposed any subsidiaries.

Subsidiaries purchased in the current period

In the current period, the Parent Bank has not purchased any subsidiaries.

8.a.5 Sectoral information on consolidated subsidiaries and the related carrying amounts in the legal books:

Subsidiaries	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Financial Service Companies	-	-
Other Financial Subsidiaries	134.086	135.856

8.a.6 Subsidiaries quoted on stock exchange:

	Current Period	Prior Period
Quoted in Domestic Stock Exchange	66.375	68.145
Quoted in Foreign Stock Exchange	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

9. Information related to entities under common control

TSKB GYO, one of the subsidiaries of the Parent Bank, established a joint venture with Bilici Yatırım Sanayi ve Ticaret A.Ş. in Adana under the name of Adana Otel Projesi Adi Ortaklığı ("Adana Hotel Project") on 26 May 2011. The main operations of Adana Hotel Project is to start, execute and complete the hotel project which will be operated by Palmira Turizm Ticaret A.Ş. The capital structure of the joint venture is designated as 50% of participation for Bilici Yatırım Sanayi ve Ticaret AŞ and 50% of participation for TSKB GYO. The nominal paid-in capital of Adana Hotel Project comprises 20.000 shares of TL 1 for each amounting to TL 20 in total. TSKB GYO has paid TL 10 in cash for the 50% ownership in Adana Hotel Project.

	Total Assets	Equity	Total Fixed Assets	Interest Income	Securities Income	Current Year Profit /Loss	Prior Year Profit /Loss	Fair Value
Adana Hotel Project	27.473	(189)	24.416	-	-	(118)	(91)	-

10. Information on finance lease receivables (net)

10.a Maturities of investments on finance leases:

	Current Period		**Prior Period**	
	Gross	**Net**	**Gross**	**Net**
Less than 1 year	4.573	4.518	6.073	5.829
Between 1- 4 years	-	-	3.685	3.603
More than 4 years	-	-	-	-
Total	**4.573**	**4.518**	**9.758**	**9.432**

10.b The information on net investments in finance leases:

	Current Period	**Prior Period**
Gross investments in finance leases	**4.573**	**9.758**
Unearned revenue from finance leases (-)	(55)	(326)
Cancelled finance leases (-)	-	-
Net investments in finance leases	**4.518**	**9.432**

10.c Explanation with respect to finance lease agreements, the criteria used in determination of contingent rents, conditions for revisions or purchase options, updates of leasing amounts and the restrictions imposed by lease arrangements, whether arrays in repayment occur, whether the terms of the contract are renewed, if renewed, the renewal conditions, whether the renewal results any restrictions, and other important conditions of the leasing agreement:

Finance lease agreements are made in accordance with the related articles of the Financial Leasing Law No. 3226. There are no restructuring or restrictions having material effect on financial statements.

11. Information on derivative financial assets for hedging purposes

The Group has no derivative financial assets for hedging purposes as of the reporting date (31 December 2012: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

12. Information on tangible assets (net)

Current Period	Prior Period End	Additions	Disposals	Transfers	Current Period End
Cost					
Land and buildings (*)	39.859	31	-	-	39.890
Assets Held under Finance Leases	5.121	-	(666)	-	4.455
Vehicles	1.294	285	(175)	-	1.404
Assets for Resale	1.380	170	(347)	-	1.203
Other	19.476	3.058	(1.051)	-	21.483
Total Cost	**67.130**	**3.544**	**(2.239)**	**-**	**68.435**
Accumulated Depreciation					
Land and buildings (*)	(20.778)	(891)	-	-	(21.669)
Assets Held under Finance Leases	(4.916)	(58)	666	-	(4.308)
Vehicles	(899)	(220)	175	-	(944)
Assets for Resale	(14)	(7)	4	-	(17)
Other	(16.290)	(1.395)	1.051	-	(16.634)
Total Accumulated Depreciation	**(42.897)**	**(2.571)**	**1.896**	**-**	**(43.572)**
Impairment Provision					
Land and buildings (*)	-	-	-	-	-
Assets Held under Finance Leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets for Resale	(447)	(19)	-	-	(466)
Other	-	-	-	-	-
Total Impairment Provision	**(447)**	**(19)**	**-**	**-**	**(466)**
Net Book Value	**23.786**	**954**	**(343)**	**-**	**24.397**

(*) Land and buildings also include lands and buildings held under finance leases.

Prior Period	Prior Period End	Additions	Disposals	Transfers	Current Period End
Cost					
Land and buildings (*)	39.433	551	(125)	-	39.859
Assets Held under Finance Leases	5.206	16	(101)	-	5.121
Vehicles	1.313	119	(138)	-	1.294
Assets for Resale	1.440	195	(255)	-	1.380
Other	18.028	1.602	(154)	-	19.476
Total Cost	**65.420**	**2.483**	**(773)**	**-**	**67.130**
Accumulated Depreciation					
Land and buildings (*)	(19.914)	(864)	-	-	(20.778)
Assets Held under Finance Leases	(4.798)	(219)	101	-	(4.916)
Vehicles	(784)	(217)	102	-	(899)
Assets for Resale	(5)	(9)	-	-	(14)
Other	(15.258)	(1.186)	154	-	(16.290)
Total Accumulated Depreciation	**(40.759)**	**(2.495)**	**357**	**-**	**(42.897)**
Impairment Provision					
Land and buildings (*)	-	-	-	-	-
Assets Held under Finance Leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets for Resale	(437)	(20)	10	-	(447)
Other	-	-	-	-	-
Total Impairment Provision	**(437)**	**(20)**	**10**	**-**	(447)
Net Book Value	**24.224**	**(32)**	**(406)**	**-**	**23.786**

(*)Land and buildings also include lands and buildings held under finance leases.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

12. Information on tangible assets (net) (continued)

12.a If impairment amount on individual asset recorded or reversed in the current period is material for the overall financial statements:

12.a.1 Events and conditions for recording or reversing impairment:

The Parent Bank recorded 5% impairment provision per year for asset held for sale and tangible assets that are not depreciated.

12.a.2 Amount of recorded or reversed impairment in the financial statements:

The impairment amount recorded as at the reporting date is TL 19 and there is no reversal of impairment (31 December 2012: impairment recorded is TL 20, impairment reversed is TL 10).

12.b The impairment provision set or cancelled in the current period according to the asset groups not individually significant but materially effecting the overall financial statements, and the reason and conditions for this:

There is no impairment provision on individual asset set or cancelled in the current period, other than impairment on properties referred to above. (31 December 2012: None)

13. Information on intangible assets

13.a Useful lives and amortization rates used:

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

Rental or administrative purposes or other unspecified purposes of assets that under construction will be amortised when they are ready to use.

13.b Amortization methods used:

The intangible assets are amortized principally on straight line basis which amortize the assets over their expected useful lives.

13.c Cost and accumulated amortization at the beginning and end of the period:

Current Period	Period Beginning		Period End	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Software	4.457	(3.442)	5.087	(3.843)
Goodwill	1.005	-	1.005	-

Prior Period	Prior Period Beginning		Prior Period End	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Software	3.949	(3.084)	4.457	(3.442)
Goodwill	1.005	-	1.005	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

13. Information on intangible assets (continued)

13.d Movement of cost and accumulated amortization for the period:

Current Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost				
Software	4.457	630	-	5.087
Goodwill	1.005	-	-	1.005
Total Cost	**5.462**	**630**	**-**	**6.092**
Accumulated Amortization				
Software	(3.442)	(401)	-	(3.843)
Goodwill	-	-	-	-
Total Accumulated Amortization	**(3.442)**	**(401)**	**-**	**(3.843)**
Impairment Provision	-	-	-	-
Software	-	-	-	-
Total Impairment Provision	-	-	-	-
Net Book Value	**2.020**	**229**	**-**	**2.249**

Prior Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost				
Software	3.949	508	-	4.457
Goodwill	1.005	-	-	1.005
Total Cost	**4.954**	**508**	**-**	**5.462**
Accumulated Amortization				
Software	(3.084)	(358)	-	(3.442)
Goodwill	-	-	-	-
Total Accumulated Amortization	**(3.084)**	**(358)**	**-**	**(3.442)**
Impairment Provision	-	-	-	-
Software	-	-	-	-
Total Impairment Provision	-	-	-	-
Net Book Value	**1.870**	**150**	**-**	**2.020**

13.e The net book value, description and the remaining amortization period of any material individual intangible asset in the financial statements:

As of the reporting date, the Group has no individual intangible asset which is material to the financial statements as a whole (31 December 2012: None).

13.f Disclosure for intangible assets acquired through government grants and accounted for at fair value at initial recognition:

As of the reporting date, the Group has no intangible assets acquired through government grants (31 December 2012: None).

13.g The method of subsequent measurement for intangible assets that are acquired through government incentives and recorded at fair value at the initial recognition:

As of the reporting date, the Group has no intangible assets acquired with government incentives (31 December 2012: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

13. Information on intangible assets (continued)

13.h The book value of intangible assets that are pledged or restricted for use:

As of the reporting date, the Group has no intangible assets with restricted use or pledged (31 December 2012: None).

13.i Amount of purchase commitments for intangible assets:

As of the reporting date, the Group has no purchase commitments for intangible assets (31 December 2012: None).

13.j Information on revalued intangible assets according to their types:

The Group did not revalue its intangible assets as at the reporting date (31 December 2012: None).

13.k Amount of total research and development expenses recorded in income statement within the period, if any:

The Group has no research and development costs expensed in the current period (31 December 2012: None).

13.l Information on goodwill:

Goodwill on Consolidation	Effective Share Rate %	Carrying Amount
Yatırım Finansman Menkul Değerler A.Ş.	95,78	1.005

13.m The carrying value of goodwill at beginning and end of the period, and movements within the period:

	Current Period	Prior Period
Net Value at the Beginning of the Period	1.005	1.005
Changes in the Period:	-	-
Additional Goodwill	-	-
Restatements Arising from Changes in Assets and Liabilities	-	-
Goodwill Written off due to Discontinued Operations or Partial/Full Derecognizing of an Asset (-)	-	-
Impairment Loss (-)	-	-
Reversal of Impairment loss (-)	-	-
Changes in Carrying Value	-	-
Net Value at the End of Period	**1.005**	**1.005**

13.n The carrying value of negative goodwill at beginning and end of the period, and movements within the period:

As of the reporting date, the Group has no negative goodwill in the accompanying financial statements (31 December 2012: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

14. Information on investment properties

In the current period, the Group has 3 investment properties with a net book value of TL 222.295 (31 December 2012: TL 240.370) belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector.

Investment Properties Movement table as of 31 December 2013 and 31 December 2012 is as below:

Current Period	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
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
Total	**240.370**	**13.683**	**(407)**	**(31.351)**	**222.295**

Prior Period	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	7.360	-		2.740	10.100
Pendorya Mall	203.845	6.433	(107)	1.449	211.620
Adana Hotel Project	15.600	4.697	(686)	(961)	18.650
Total	**226.805**	**11.130**	**(793)**	**3.228**	**240.370**

15. Information on deferred tax assets

15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset:

The Group has computed deferred tax asset or liability on ''temporary differences'' arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases.

Deferred tax asset:	Current period	Prior period
Loan commissions accrual adjustment	11.771	11.496
Other provisions	10.000	10.775
Marketable securities	96	119
Valuation of derivative instruments	1.712	1.778
Employee benefit provision	3.597	-
Other	459	617
Total Deferred Tax Asset	**27.635**	**24.785**
Deferred tax liabilities:		
Marketable securities	(5.510)	(14.703)
Borrowings commissions accrual adjustment	(3.111)	(2.395)
Valuation of derivative instruments	-	(2.004)
Useful life difference of fixed assets	(118)	(40)
Total Deferred Tax Liability	**(8.739)**	**(19.142)**
Net Deferred Tax Asset	**18.896**	**5.643**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

15. Information on deferred tax assets (continued)

15.b Temporary differences over which deferred tax asset are not computed and recorded in the balance sheet in prior periods, if so, their expiry date, losses and tax deductions and exceptions:

There is no deductible temporary differences that are not included in calculation of deferred tax asset and not reflected to financial statements in prior periods. (31 December 2012: None).

15.c Allowance for deferred tax and deferred tax assets from reversal of allowance:

There is no allowance for deferred tax and deferred tax assets from reversal of allowance (31 December 2012: None).

16. Information on assets held for sale:

In the current period, the Group has no assets held for sale (31 December 2012: None).

17. Information about other assets

17.a Other assets which exceed 10% of the balance sheet total and breakdown of these which constitute at least 20% of grand total:

Other assets do not exceed 10% of total assets, excluding off-balance sheet commitments (31 December 2012: None).

II. Explanations and disclosures related to the consolidated liabilities

1. Information on maturity structure of deposits

1.a.1 Maturity structure of deposits:

The Parent Bank is not authorized to accept deposits.

1.a.2 Information on saving deposits under the guarantee of saving deposit insurance fund and exceeding the limit of deposit insurance fund:

The Parent Bank is not authorized to accept deposits.

1.b Information on the scope whether the bank with a foreign head office suits saving deposit insurance of the related country:

The Parent Bank is not authorized to accept deposits.

1.c Saving deposits which are not under the guarantee of deposit insurance fund:

The Parent Bank is not authorized to accept deposits

2. Negative differences table related to derivative financial liabilities held-for-trading

Derivative Financial Liabilities Held For Trading	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Forward Transactions	-	5.782	1.565	1.164
Swap Transactions	7.277	21.950	-	17.901
Futures Transactions	-	-	-	-
Options	-	22.848	-	367
Other	-	-	-	-
Total	**7.277**	**50.580**	**1.565**	**19.432**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

3. Information on banks and other financial institutions

3.a Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Loans from Central Bank of Turkey	-	-	-	-
From Domestic Banks and Institutions	74.275	271.197	142.819	90.711
From Foreign Banks, Institutions and Funds	-	8.779.565	-	6.796.075
Total	**74.275**	**9.050.762**	**142.819**	**6.886.786**

3.b Maturity analysis of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	74.275	565.123	142.819	270.665
Medium and long-term	-	8.485.639	-	6.616.121
Total	**74.275**	**9.050.762**	**142.819**	**6.886.786**

3.c Additional information about the concentrated areas of liabilities:

Under normal banking operations, the Parent Bank provided funds under repurchase agreements and funds borrowed. Fund resources of the Parent Bank particularly consist of foreign FC funds borrowed and FC and TL repurchase transactions. Information relating to funds provided under repurchase agreements is shown in the table below:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	1.357.764	22.356	1.016.533	50.613
Financial institutions and organizations	1.332.219	-	941.545	-
Other institutions and organizations	21.828	18.857	38.312	39.977
Real persons	3.717	3.499	36.676	10.636
From Foreign Transactions	896	223.875	794	167.239
Financial institutions and organizations	-	221.878	155	166.710
Other institutions and organizations	2	79	-	-
Real persons	894	1.918	639	529
Total	**1.358.660**	**246.231**	**1.017.327**	**217.852**

4. Other liabilities which exceed 10 % of the balance sheet total and the breakdown of these which constitute at least 20 % of grand total

There are no other liabilities which exceed 10% of the balance sheet total (31 December 2012: None).

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

5. Explanations on financial lease obligations (net)

5.a Explanations on finance lease payables:

The Group has no finance lease payables (31 December 2012: TL 6).

5.b Explanations regarding operational leases:

As of the reporting date, head office of one of the Group companies and 15 branches 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).

5.c Explanations on the lessor and lessee in sale and lease back transactions, agreement conditions, and major agreement terms:

The Group has no sale and lease back transactions as of the reporting date (31 December 2012: None).

6. Information on derivative financial liabilities for hedging purposes

The Group has no derivative financial liabilities for hedging purposes as of reporting date (31 December 2012: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

7. Information on provisions

7.a Information on general loan loss provisions:

	Current Period	Prior Period
General Provisions	**96.583**	**77.247**
I.Provisions for First Group Loans and Receivables	79.294	67.544
- Additional provisions for the loans with extended payment plan	-	-
II.Provisions for Second Group Loans and Receivables	5.868	599
- Additional provisions for the loans with extended payment plan	*5.329*	-
Provisions for Non-Cash Loans	2.798	2.417
Other	8.623	6.687

7.b Foreign exchange losses on the foreign currency indexed loans and finance lease receivables:

As of reporting date, the Group's foreign exchange losses on the foreign currency indexed loans amount to TL 614 (31 December 2012: TL 8.426). The foreign exchange losses on the foreign currency indexed loans are netted off from the loans in the financial statements.

7.c The specific provisions provided for unindemnified non cash loans:

The Group has TL 2.115 specific provisions provided for unindemnified non cash loans as of the reporting date (31 December 2012: None).

7.d Information related to other provisions:

7.d.1 Provisions for possible losses:

There is no provision for possible losses (31 December 2012: None).

7.d.2 Information on employee termination benefits and unused vacation accrual:

The Group has calculated reserve for employee termination benefits by using actuarial valuations as set out in the Turkish Accounting Standard No:19 and reflected the calculated amount to the financial statements.

As of 31 December 2013, TL 11.948 (31 December 2012: TL 11.295) reserve for employee termination benefits was provided against a total undiscounted liability of TL 7.122 (31 December 2012: TL 7.769).As of 31 December 2013, the Group provided a reserve of TL 1.554 (31 December 2012: TL 1.217) for the unused vacations. This balance is classified under reserve for employee benefits in the financial statements.

Actuarial gains and losses occurred after 1 January 2013 are recognised under Shareholder's Equity since 1 January 2013 inaccordance with Revised TAS 19.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

7. Information on provisions (continued)

7.d Information related to other provisions (continued)

7.d.2 Information on employee termination benefits and unused vacation accrual (continued):

Liabilities on pension rights

As explained on the Section Three, Accounting Policies, XVI. Explanations on Liabilities Regarding Employee Benefits as of 31 December 2013, the Group has no obligations on pension rights (31 December 2012: None).

Liabilities for pension funds established in accordance with Social Security Institution

None (31 December 2012: None).

Liabilities resulting from all kinds of pension funds, foundations etc. which provide post retirement benefits for the employees

The Parent Bank's present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemleri Yardım ve Emekli Vakfı fund, 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.

Accordingly, as of 31 December 2013 the Parent Bank has no requirements for the benefits transferable to the fund and for other benefits not transferable to the fund and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees in accordance to the law explained in Note 3.15, the accounting policies related with employee benefits.

7.d.3 If other provisions exceeds 10% of total provisions, the name and amount of sub-accounts:

	Current Period	**Prior Period**
Provision for Lawsuits	-	125
Other (*)	50.068	53.815
Total	**50.068**	**53.940**

(*) Other provision account includes TL 50.000 of provision for risks on credit portfolio (31 December 2012: TL 50.000).

8. Information on taxes payable

8.a Information on current taxes payable:

8.a.1 Information on taxes payable:

	Current Period		**Prior Period**	
Corporate Taxes and Deferred Taxes	**TL**	**FC**	**TL**	**FC**
Corporate Taxes Payable	18.137	-	29.690	-
Deferred Tax Liability	-	-	-	-
Total	**18.137**	**-**	**29.690**	**-**

8.a.2 Information on taxes payable:

	Current Period	**Prior Period**
Corporate Taxes Payable	18.137	29.690
Taxation of Securities	884	1.079
Property Tax	-	-
Banking and Insurance Transaction Tax (BITT)	1.942	1.224
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	155	84
Other	1.213	873
Total	**22.331**	**32.950**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

8. Information on taxes payable (continued)

8.a Information on current taxes payable (continued):

8.a.3 Information on premiums:

	Current Period	Prior Period
Social Security Premiums-Employee	113	86
Social Security Premiums-Employer	125	91
Bank Social Aid Pension Fund Premium-Employee	-	-
Bank Social Aid Pension Fund Premium-Employer	-	-
Pension Fund Membership Fees and Provisions-Employee	-	-
Pension Fund Membership Fees and Provisions-Employer	-	-
Unemployment Insurance-Employee	25	22
Unemployment Insurance-Employer	49	45
Other	17	13
Total	**329**	**257**

8.b Information on deferred taxes liabilities:

As of the reporting date, the Group has no deferred tax liability (31 December 2012: None).

9. Information on liabilities regarding assets held for sale

None (31 December 2012: None).

10. Explanations on the number of subordinated loans the group used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any

The Parent Bank has signed an agreement with the International Finance Corporation, for a subordinated loan of USD 50 Million (TL 106.000 as of 31 December 2013).The interest accrued on this loan is TL 759 as of the reporting date.

The first agreement date of the loan was 21 September 2004. The first usage date was 5 November 2004. The interest rate is variable; at the reporting date it is (0,36+3,00 spread) 3,36%. Principal of the loan will be repaid on 15 October 2016 as a whole.

Information on subordinated loans

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Banks	-	-	-	-
From Other Domestic Institutions	-	-	-	-
From Foreign Banks	-	-	-	-
From Other Foreign Institutions	-	106.759	-	89.125
Total	**-**	**106.759**	**-**	**89.125**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

11. Information on shareholders' equity

11.a Presentation of paid-in capital:

	Current Period	Prior Period
Common Stock	1.300.000	1.100.000
Preferred Stock	-	-

11.b Paid-in capital amount, explanation as to whether the registered share capital system ceiling is applicable at bank, if so amount of registered share capital:

Capital System	Paid-in Capital	Ceiling
Registered Capital System	1.300.000	2.500.000

11.c Information on share capital increases and their sources; other information on increased capital shares in current period:

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 Parent 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. TL 163.000 of this increase will be incorporated from extraordinary reserves. The increase in paid-in capital was 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.

11.d Information on share capital increases from capital reserves:

In the current period there is no share capital increases from capital reserves (31 December 2012: None).

11.e Capital commitments in the last fiscal year and at the end of the following interim period, the general purpose of these commitments and projected resources required to meet these commitments:

The Parent Bank has no capital commitments in the last fiscal year and at the end of the following interim period (31 December 2012: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

11. Information on shareholders' equity (continued)

11.f Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:

The prior period income, the profitability and liquidity of the Parent Bank and their trends in the successive periods are followed by Financial Control Department by considering the outcomes of the potential changes in the foreign exchange rate, interest rate and maturity alterations on profitability and liquidity under several different scenario analyses. The Parent Bank operations are profitable and the Parent Bank keeps the major part of its profit by capital increases or capital reserves within the shareholders' equity.

11.g Information on preferred shares:

The Parent Bank has no preferred shares (31 December 2012: None).

11.h Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
From Associates, Subsidiaries, and Entities Under Common Control	(4.582)	-	2.450	-
Valuation Differences	(7.025)	15.648	61.919	69.385
Foreign Exchange Difference	-	-	-	-
Total	**(11.607)**	**15.648**	**64.369**	**69.385**

11.i Information on legal reserves:

	Current Period	Prior Period
First legal reserve	77.684	62.321
Second legal reserve	80.707	62.678
Other Legal Reserves Appropriated In Accordance with Special Legislation	53	53
Total	**158.444**	**125.052**

11.j Information on extraordinary reserves:

	Current Period	Prior Period
Reserves Appropriated by the General Assembly	24.993	7.544
Retained Earnings	-	-
Accumulated Losses	-	-
Foreign Currency Share Capital Exchange Differences	-	-
Total	**24.993**	**7.544**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

11. Information on shareholders' equity (continued)

11.k Explanations related to equity:

Movement of equity reserves during the period:

Current Period	**Value Increase Funds of Marketable Securities from Available for Sale**	**Value Increase Funds of Marketable Securities from Subsidiaries and Associates**	**Revaluation value increase Subsidiaries and Associates**	**Others Equity Reserves**	**Total**
As of 1 January	**131.304**	**2.450**	**35.157**	**374**	**169.285**
Value increase/decrease of available for sale investments recognized directly under equity	(159.235)	(7.032)	-	-	(166.267)
Profit/loss on disposal of available for sale investments recycled to income statement from equity	6.423	-	-	-	6.423
Tax effect of gains on available for sale investments	30.131	-	-	-	30.131
Other (*)	-	-	(26.237)	-	(26.237)
As of 31 December	**8.623**	**(4.582)**	**8.920**	**374**	**13.335**

(*) In the current period, according to the article 5-(I)/e of the Turkish Corporate Tax Code No. 5520, 75% of the gain on sale of the building amounting to TL 2.856 in the tax purpose financial statements amounting to TL 2.142 is exempt from corporate income tax and for the five years following 2012, until the profit distribution process has completed, gains are agreed to be kept in a special fund account under equity and within the specified period, except the share capital, gains are not allowed to transfer into another account. The Parent Bank has transferred such gains to the ''Tangible and Intangible Assets Revaluation Differences '' accounts.

Prior Period	**Value Increase Funds of Marketable Securities from Available for Sale**	**Value Increase Funds of Marketable Securities from Subsidiaries and Associates**	**Revaluation value increase Subsidiaries and Associates**	**Others Equity Reserves**	**Total**
As at 1 January	**14.480**	**2.680**	**31.174**	**374**	**48.708**
Value increase/decrease of available for sale investments recognized directly under equity	145.633	(230)		-	145.403
Profit/loss on disposal of available for sale investments recycled to income statement from equity	(756)	-		-	(756)
Tax effect of gains on available for sale investments	(28.053)	-		-	(28.053)
Other(*)	-	-	3.983	-	3.983
As at 31 December	**131.304**	**2.450**	**35.157**	**374**	**169.285**

(*) In the prior period, according to the article 5-(I)/e of the Turkish Corporate Tax Code No. 5520, 75% of the gain on sale of the building amounting to TL 5.311 in the tax purpose financial statements amounting to TL 3.983 is exempt from corporate income tax and for the five years following 2011, until the profit distribution process has completed, gains are agreed to be kept in a special fund account under equity and within the specified period, except the share capital, gains are not allowed to transfer into another account. The Parent Bank has transferred such gains to the ''Tangible and Intangible Assets Revaluation Differences '' account.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

12. Information on minority shares:

	Current Period	Prior Period
Paid-in-Capital	54.310	54.310
Other Capital Reserves	33	33
Share Premium	205	205
Securities Value Increase Fund	2	15
Legal Reserves	109	109
Extraordinary Reserves	2.061	2.061
Other Profit Reserves	(2)	-
Retained Earnings / Accumulated Losses	27.540	19.399
Net Profit or Loss	(8.736)	8.141
Total	**75.522**	**84.273**

III. Explanations related to the consolidated off-balance sheet contingencies and commitments

1. Information on off-balance sheet liabilities

1.a Nature and amount of irrevocable loan commitments:

	Current Period	Prior Period
Commitments for Forward Purchase and Sales of Assets	511.345	10.175
Commitments for Money Market Brokerage Purchase and Sales	84.167	-
Commitments for Use Guaranteed Credit Allocation	4.805	4.007
Commitments for Stock Brokerage Purchase and Sales	468.176	135.666
Commitments for Letter of Credit	344.115	338.675
Commitments from Forward Short Term Borrowing and Transfers	46.740	-
Other	1.593	120
Total	**1.460.941**	**488.643**

1.b Possible losses and commitments related to off-balance sheet items including items listed below:

1.b.1 Non-cash loans including guarantees, acceptances, financial collaterals and other letters of credits

As of the reporting date, total letter of credits is TL 438.033 (31 December 2012: TL 572.564).

1.b.2 Guarantees, surety ships, and similar transactions

As of the reporting date, total letters of guarantee is TL 1.015.387 (31 December 2012: TL 635.768).

1.c.1 Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash Loans Given Against Achieving Cash Loans	-	-
With Maturity of One Year or Less than One Year	-	-
With Maturity of More than One Year	-	-
Other Non-Cash Loans	1.453.420	1.212.557
Total	**1.453.420**	**1.212.557**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

1. Information on off-balance sheet liabilities (continued)

1.c.2 Information on sectoral risk breakdown of non-cash loans:

	Current Period				**Prior Period**			
	TL	**(%)**	**FC**	**(%)**	**TL**	**(%)**	**FC**	**(%)**
Agriculture	-	-	-	-	-	-	-	-
Farming and stockbreeding	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Industry	375.344	74	849.991	90	160.031	55	668.187	72
Mining	-	-	-	-	-	-	-	-
Manufacturing Industry	6.049	1	238.496	25	4.393	1	286.673	31
Electricity, Gas, Water	369.295	73	611.495	65	155.638	54	381.514	41
Construction	12.206	3	5.845	1	4.285	2	4.665	1
Services	118.371	23	91.663	9	122.439	42	248.950	27
Wholesale and Retail Trade	-	-	-	-	-	-	182.048	20
Hotel, Food and Beverage Services	-	-	-		-	-	-	-
Transportation and Communication	-	-	11.449	1	-	-	-	-
Financial Institutions	117.734	23	79.668	8	121.959	42	66.434	7
Real Estate and Leasing Services	637	-	546	-	480	-	468	-
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	-	-	-	-	4.000	1	-	-
Total	**505.921**	**100**	**947.499**	**100**	**290.755**	**100**	**921.802**	**100**

1.c.3 Information on Ist and IInd group non-cash loans:

	Ist Group				**IInd Group**			
	Current Period		**Prior Period**		**Current Period**		**Prior Period**	
	TL	**FC**	**TL**	**FC**	**TL**	**FC**	**TL**	**FC**
Non-cash Loans	**499.681**	**941.101**	**290.755**	**921.802**	**5.740**	**2.668**	-	-
Letters of Guarantee	499.681	509.466	286.530	349.238	5.740	-	-	-
Bank Acceptances	-	-	-	-	-	-	-	-
Letters of Credit	-	431.635	-	572.564	-	2.668	-	-
Endorsements	-	-	-	-	-	-	-	-
Purchase Guarantees on Issuance of Securities	-	-	-	-	-	-	-	-
Factoring Guarantees	-	-	-	-	-	-	-	-
Other	-	-	4.225	-	-	-	-	-

The Bank has specific provisions amounting to TL 2.115 (31 December 2012: None) provided for unindemnified and non cash loans amounting to TL 4.230 which are followed under off-balance sheet items as of the reporting date (31 December 2012: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

2. Information related to derivative financial instruments

	Current Period	Prior Period
Foreign currency related derivative transactions (I)	2.635.069	1.301.638
Forward transactions	597.304	475.517
Swap transactions	1.251.495	706.432
Futures transactions	-	-
Option transactions	786.270	119.689
Interest related derivative transactions (II)	2.528.510	1.677.074
Interest rate swap transactions	2.510.020	1.645.874
Interest option transactions	18.490	31.200
Futures interest transactions	-	-
Other trading derivative transactions (III)	-	-
A. Total trading derivative transactions (I+II+III)	5.163.579	2.978.712
Types of hedging transactions	-	-
Fair value hedges	-	-
Cash flow hedges	-	-
Net investment hedges	-	-
B. Total hedging related derivatives	-	-
Total Derivative Transactions (A+B)	**5.163.579**	**2.978.712**

As of 31 December 2013, the breakdown of the Group's foreign currency forward and swap transactions based on currencies are disclosed below in their TL equivalents:

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Other Buy	Other Sell
Current Period										
TL	213.289	19.461	220.342	57.746	187.344	183.644	-	-	-	-
US Dollar	29.902	29.750	911.530	1.214.686	125.176	117.884	-	-	-	-
Euro	39.032	241.354	743.735	608.878	89.511	101.201	-	-	-	-
Other	12.258	12.258	2.300	2.298	-	-	-	-	-	-
Total	**294.481**	**302.823**	**1.877.907**	**1.883.608**	**402.031**	**402.729**	**-**	**-**	**-**	**-**

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Other Buy	Other Sell
Prior Period										
TL	55.432	55.189	37.968	14.070	15.734	15.734	-	-	-	-
US Dollar	63.778	63.756	547.368	826.694	40.631	20.069	-	-	-	-
Euro	118.678	118.684	593.050	332.263	18.865	39.856	-	-	-	-
Other	-	-	893	-	-	-	-	-	-	-
Total	**237.888**	**237.629**	**1.179.279**	**1.173.027**	**75.230**	**75.659**	**-**	**-**	**-**	**-**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

2. Information related to derivative financial instruments (continued)

	Current Period			Prior Period		
Derivative Financial Liabilities Held For Trading	**Fair value assets**	**Fair value liabilities**	**Contractual Derivative Transactions TL Amount**	**Fair value assets**	**Fair value liabilities**	**Contractual Derivative Transactions TL Amount**
Swap Transactions	6.230	(13.165)	1.251.495	4.518	(356)	706.432
Interest Rate Swap Transactions	9.459	(10.355)	2.510.020	15.312	(17.546)	1.645.874
Forward Transactions	2.796	(11.489)	597.304	2.980	(2.729)	475.517
Futures Transactions	-	-	-	-	-	-
Option Transactions	22.202	(22.848)	804.760	433	(366)	150.889
Other	-	-	-	-	-	-
Total	**40.687**	**(57.857)**	**5.163.579**	**23.243**	**(20.997)**	**2.978.712**

Fair value hedges

For the year ended 31 December 2013 the Group does not have any items under hedge accounting (31 December 2012: None).

Hedging from the cash-flow risk

As of 31 December 2013 there is no cash-flow hedging transactions (31 December 2012: None).

3. Explanations on loan derivatives and risk exposures

The Group has no loan derivatives and such risk exposures to this respect (31 December 2012: None).

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

4. Explanations on contingent liabilities and assets

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 Commitee inspectors made an investigation for the years 2008-2011 about the payments made by the Parent 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 Parent 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 Parent Bank relying on this report. The Parent Bank assesses that the Parent 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 Parent Bank has used the legal rights for that assessment. No provision has been provided as of the reporting date.

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.

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

4. Explanations on contingent liabilities and assets(continued)

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 ("IBB"), 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 IBB 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 IBB.

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.

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 interventing 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.

5. Custodian and intermediary services

The Group provides trading and safe keeping services in the name and account of real persons, entities, funds, pension funds and other entities which are presented in the statement of contingencies and commitments.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement

1. Information on interest income

1.a Information on interest on loans:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Interest on Loans (*)				
Short Term Loans	15.505	8.975	12.779	9.749
Medium and Long Term Loans	82.745	285.266	75.746	233.951
Interest on Non-performing Loans	1.078	-	219	514
Premiums received from Resource Utilization Support Fund	-	-	-	-
Total	**99.328**	**294.241**	**88.744**	**244.214**

(*)Commission income from loans has been included to the interest on loans.

1.b Information on interest received from banks:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
The Central Bank of Turkey	-	-	-	-
Domestic Banks	20.220	16	22.942	224
Foreign Banks	-	-	1	1
Branches and Head Office Abroad	-	-	-	-
Total	**20.220**	**16**	**22.943**	**225**

1.c Information on interest received from marketable securities:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Trading Securities	1.142	7	3.756	-
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Available for Sale Financial Assets	204.057	23.945	208.945	28.382
Investments Held to Maturity	-	-	7.693	-
Total	**205.199**	**23.952**	**220.394**	**28.382**

1.d Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest Received from Associates and Subsidiaries	2.493	2.837

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

2. Information on interest expense

2.a Information on interest on funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	12.861	5.743	3.039	6.073
The Central Bank of Turkey	-	-	4	-
Domestic Banks	12.763	665	3.006	695
Foreign Banks	98	5.078	29	5.378
Branches and Head Office Abroad	-	-	-	-
Other Financial Institutions	-	77.613	-	84.231
Total (*)	**12.861**	**83.356**	**3.039**	**90.304**

(*)Commissions given to other financial institutions have been included in interest expense on funds borrowed.

2.b Information on interest expenses to associates and subsidiaries:

There is no interest expense to its associates and subsidiaries.(31 December 2012: None)

2.c Information on interest expense to securities issued:

There is no interest expense to its securities issued. (31 December 2012: None)

3. Information on dividend income

	Current period	Prior period
Trading Securities	109	407
Financial Assets at Fair Value Through Profit and Loss	-	-
Available-for-Sale Securities	8.912	2.173
Other	6.694	3.434
Total	**15.715**	**6.014**

4. Information on net trading income (net)

	Current period	Prior period
Profit	**611.296**	**406.082**
Gains on capital market operations	7.728	7.195
On derivative financial instruments (*)	159.792	160.512
Foreign exchange gains	443.776	238.375
Losses (-)	**636.031**	**(379.773)**
Losses on capital market operations	(3.337)	(4.377)
On derivative financial instruments (*)	(206.151)	(111.773)
Foreign exchange losses	(426.543)	(263.623)

(*) Foreign exchange gain from derivative transactions amounting to TL 137.275 is presented in “Profit on derivative financial instruments” (31 December 2012: TL 133.264), foreign exchange loss from derivative transactions amounting to TL (132.425) is presented in “Losses on derivative financial instruments” (31 December 2012: TL (104.134)).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

5. Information related to other operating income

	Current Period	Prior Period
Provisions Released	6.279	13.638
Gains on Sale of Assets	854	2.962
From Associate and Subsidiary Sales	756	-
From Immovable Fixed Asset Sales	33	2.912
From Property Sales	65	50
From Other Asset Sales	-	-
Other (*)	18.408	15.660
Total	**25.541**	**32.260**

(*) Gain on fair value difference of investment properties of the Group amounting to TL 4.220 and rent income amounting to TL7.648 is included in "Other"(31 December 2012: TL 4.189 fair value difference, TL 9.518 rent income).

6. Provision expenses related to loans and other receivables of the Group

	Current Period	Prior Period
Specific provisions for loans and other receivables	26.038	613
III. Group	25.653	59
IV. Group	46	1
V. Group	339	553
General provision expenses	19.336	18.756
Provision expenses for possible losses	-	-
Marketable securities impairment expenses	1.856	1.476
Trading securities	-	396
Investment securities available for sale	1.856	1.080
Impairment provisions	-	-
Associates	-	-
Subsidiaries	-	-
Entities under common control (Joint Vent.)	-	-
Investment securities held to maturity	-	-
Other	-	13.750
Total	**47.230**	**34.595**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

7. Information Related to Other Operating Expenses

	Current Period	Prior Period
Personnel expenses	66.134	60.091
Reserve for employee termination benefits	392	3.017
Bank social aid fund deficit provision	-	-
Impairment expenses of fixed assets	35.571	-
Depreciation expenses of fixed assets	2.564	2.486
Impairment expenses of intangible assets	-	-
Impairment expense of goodwill	-	-
Amortization expenses of intangible assets	401	358
Impairment on subsidiaries accounted for under equity method	-	-
Impairment on assets for resale	19	20
Depreciation expenses of assets held for resale	7	9
Impairment expenses of assets held for sale	-	-
Other operating expenses	25.429	22.865
Rent expenses	3.176	2.107
Maintenance expenses	1.392	1.477
Advertisement expenses	1.469	1.372
Other expenses	19.392	17.909
Loss on sales of assets	20	110
Other	9.991	11.262
Total	**140.528**	**100.218**

8. Information on profit/loss before tax from continued and discontinued operations before tax

As of 31 December 2013, profit before tax of the Group has decreased by 7,78% as compared to the prior period (31 December 2012: 24,70% increased). In comparison with the prior year, the Group's net interest income has increased by 13,36% (31 December 2012: 17,97% increase)

9. Information on tax provision for continued and discontinued operations

9.a Information on current tax charge or benefit and deferred tax charge or benefit:

The Group's current tax charge for the period is TL 58.256 (31 December 2012: TL 94.286 tax charge). Deferred tax charge is TL 16.783 (31 December 2012: TL 18.032 tax benefit).

9.b Information related to deferred tax benefit or charge on temporary differences:

Deferred tax charge calculated on temporary differences is TL 16.783 (31 December 2012: TL 18.032 tax benefit).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

9. Information on tax provision for continued and discontinued operations (continued)

9.c Information related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:

As of 31 December 2013, deferred tax charge calculated based on temporary timing differences is TL 16.783 (31 December 2012: TL 18.032 tax benefit). There is no deferred tax benefit or charge reflected to income statement on carry forward tax losses, tax deductions and exceptions (31 December 2012: None).

In addition, TL 2.133 deferred tax (31 December 2012: TL 32.264), which is calculated over the fair value differences on available for sale securities, is offset against the “available for sale securities value increase fund” item under equity and TL 95 deferred tax, which is calculated over actuarial difference on employee benefit is offset against “other profit reserves” item under equity.

10. Information on net profit from continued and discontinued operations

For the year ended 31 December 2013, net profit of the Group has decreased by 9,23% compared to the prior year (31 December 2012: 25,73% increase).

11. Information on net profit/loss

11.a The nature and amount of certain income and expense items from ordinary operation is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Group's performance for the period:

The Group has generated TL 657.490 interest income, TL 175.902 interest expenses, TL 27.867 net fee and commission income from banking operations (31 December 2012: TL 613.037 interest income, TL 188.193 interest expenses, TL 26.520 net fee and commission income).

11.b The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:

There are no changes in the accounting estimates.

11.c Minority share of profit and loss:

The current year profit attributable to minority shares is TL (8.736) (31 December 2012: TL 8.141 profit). The total shareholders’ equity, including current year profit attributable to minority shares is TL 75.522 (31 December 2012: TL 84.273).

12. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below

	Current Period	**Prior Period**
Gains on Other Fees and Commissions		
Gains on Brokerage Commissions	19.036	13.834
Commissions from Initial Public Offering	1.705	469
Investment Fund Management Income	2.217	2.253
Other	2.080	3.171
Total	**25.038**	**19.727**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

V. Explanations related to consolidated statement of changes in shareholders' equity

1. Information related to capital

As of 31 December 2013, shareholders are as follows:

Current Period Name Surname/Commercial Title	Share Capital	Shareholding Rate(%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	650.001	50,00	650.001	-
T. Vakıflar Bankası T.A.O.	108.907	8,38	108.907	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	541.092	41,62	541.092	-
Total	**1.300.000**	**100,00**	**1.300.000**	**-**

Prior Period Name Surname/Commercial Title	Share Capital	Shareholding Rate(%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	550.001	50,00	550.001	-
T. Vakıflar Bankası T.A.O.	92.152	8,38	92.152	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	457.829	41,62	457.829	-
Physically Under Custody (Other Institutions and Individuals)	18	-	18	-
Total	**1.100.000**	**100,00**	**1.100.000**	**-**

In the current period, 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 and the remaining TL 32.000 will be incorporated form extraordinary reserves. The increase in paid-in capital has approved by the BRSA on 3 May 2013, 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 Parent 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 form 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.

2. Information on the increase arising from the revaluation of available-for-sale securities

As of 31 December 2013, TL 10.756 value increase is arising from the valuation of available for sale investments at fair value. TL 2.133 deferred tax is offset against value increase related to these investments and as a result, TL 8.623 net value increase is disclosed under the securities value increase fund in the statement of changes in the equity.

In the prior period, TL 163.568 value increase is arising from the valuation of available for sale investments at fair value. TL 32.264 deferred tax is offset against value increase related to these investments and as a result, TL 131.304 net value increase is disclosed under the securities value increase fund in the statement of changes in the equity.

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

V. Explanations related to consolidated statement of changes in shareholders' equity (continued)

3. Information on increases in the cash flow hedges

There is no increase in the cash flow hedges.

4. Reconciliation between beginning and ending balances for foreign currency differences

There is no difference in the beginning and ending balances for foreign currency differences accounted for under equity.

5. Information on the decrease arising from the revaluation of securities available-for-sale

The increase/decrease arising from the revaluation of securities available-for-sale is explained in Note V.2, above.

6. Information about dividends

6.a Dividends declared subsequent to the reporting date, but before the announcement of the financial statements:

Dividends related with the equity shares are determined by the General Assembly of the Shareholders. Weighted average number of shares outstanding is taken into account in the calculation of earnings per share. In case the number of shares increases by way of bonus issues as a result of the capital increases made by using the internal sources, the calculation of earnings per share is made by adjusting the weighted average number of shares, which were previously calculated as at the comparable periods. The adjustment means that the number of shares used in calculation is taken into consideration as if the bonus issue occurred at the beginning of the comparable period. In case such changes in the number of shares occur after the balance sheet date, but before the approval of the financial statements to be published, the calculation of earnings per share are based on the number of new shares. The profit distribution will be approved at the General Assembly, which is not yet held as of the date of the financial statements authorized for issue.

6.b Net dividend per share proposed after the reporting period:

As of the reporting date, there are no dividends proposed by the Parent Bank for the approval in the General Assembly as explained above.

7. Amounts transferred to legal reserves

In the current year, TL 33.392 was transferred to the legal reserves (31 December 2012: TL 27.936).

8. Offsetting of the prior period's losses

There is no offsetting of accumulated losses made during the current and prior year.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. Explanations related to consolidated statement of cash flows

1. Explanations about other cash flows items and the effect of changes in foreign exchange rates in cash and cash equivalents

In the current period, TL 43.281 other income consists of gain from sale of assets, capital market transactions gain and other non-interest income (31 December 2012: TL 85.850 other income consists of other income rental income, securities trade gains gain from sale of assets and gains other than interest).

Other caption in changes in assets and liabilities from banking operations, TL 56.727 (31 December 2012: TL (60.176)) consists of taxes paid, except derivative financial transaction losses, financial lease expense, employee termination benefits provision, depreciation expense other operating income and, fees and commissions paid.

In the current period, net increase/decrease in other assets TL 214.916 (31 December 2012: TL 116.869) consists of changes in miscellaneous receivables, reserve requirement and other assets. In the current period, TL 330.090 other liabilities (31 December 2012: TL 101.026) consists of changes in funds, miscellaneous payables and funds provided under repurchase agreements.

In the current period, the effect of foreign currency differences on cash and cash equivalents is TL 17.280 gain (31 December 2012: TL 2.400 loss).

2. Information about cash flows from acquisition of associates, subsidiaries, and other investments:

In the current period, the Group invested TL 17.258 in movable fixed assets and properties and invested TL 630 in intangible fixed assets. There is TL 120 investment in associates and subsidiaries.

In the prior period, the Group invested TL 13.613 in movable fixed assets and properties and invested TL 560 in intangible fixed assets. There is TL 420 investment in associates and subsidiaries.

3. Information about disposal of associates, subsidiaries, and other investments:

The total amount of purchases or sales of related account and their cash and cash equivalent assets;

In the current period, the Group has generated a cash inflow of TL 1.605 on sale of movable fixed assets and properties. There is no sale of associates and subsidiaries in the current period.

In the prior period, , the Group has generated cash inflows of TL 3.865 on sale of movable fixed assets and properties. The Group has not sold any associates and subsidiaries in the current period.

4. Cash and cash equivalents at the beginning and end of period:

Cash and cash equivalents at the beginning of period:

	At the Beginning of Current Period	At the Beginning of Prior Period
Cash	28.048	8.200
Cash Equivalents	438.611	526.489
Total	**466.659**	**534.689**

Cash and cash equivalents at the end of period:

	At the End of Current Period	At the End of Prior Period
Cash	107	28.048
Cash Equivalents	498.160	438.611
Total	**498.267**	**466.659**

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. Explanations related to consolidated statement of cash flows

5. Amount of cash and cash equivalents restricted for the usage of the Parent Bank and the shareholders by legal limitations and other reasons

There are no cash and cash equivalents restricted for the usage of the Parent Bank and affiliates by legal limitations and other reasons.

6. Additional information related to financial position and liquidity

6.a Any unused financial borrowing facility which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities

There are not any unused financial borrowing facilities which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities.

6.b Apart from the cash flows needed to run ordinary operations of the Bank, total of cash flows that shows the increase in the operation capacity of the Bank:

Under current economical conditions, the cash flows are followed daily and cash flows showing the increase in the capacity of operations of the Bank are investigated.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VII. Explanations on the risk group of the Parent Bank

1. Information on the volume of transactions related to the Parent Bank's own risk group, outstanding loan and deposit transactions and income and expenses of the period

1.a Current period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	83.374	412	107.017	117.413	44.671	4.225
Balance at the end of the period	85.560	262	112.840	117.413	91.627	-
Interest and commission income received	2.488	5	2.616	294	3.318	-

1.b Prior period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	85.465	490	57.506	117.413	41.643	-
Balance at the end of the period	83.374	412	107.017	117.413	44.671	4.225
Interest and commission income received	2.832	5	2.082	294	2.031	-

1.c Information on deposit held by Parent Bank's own risk group:

The Parent Bank is not authorized to accept deposits.

2. Information on forward and option agreements and other similar agreements made with related parties

The Parent Bank has not any derivative transactions with the Parent Bank's risk group.

3. Total salaries and similar benefits provided to the key management personnel

Benefits provided to key management personnel in the current period amount to TL 10.016 (31 December 2012: TL 8.702).

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VIII. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Parent Bank

1. Information and disclosures related to the domestic, foreign branches and foreign representations of the Group

	Number	Number of Employees			
Domestic branches	16	482			
			Country of Incorporation		
Foreign representations	-	-			
				Total Asset	Statutory Share Capital
Foreign branches	-	-		-	-
Off-shore banking region branches	-	-		-	-

2. Explanation on opening, closing of a branch/agency of the Parent Bank or changing its organizational structure significantly:

In the current year, the Parent Bank has not opened any branch or agency and there is no significant change in the organization structure of the Parent Bank's operating branches.

In the prior period, the Parent Bank has not opened any branch or agency and there is no significant change in the organization structure of the Parent Bank's operating branches. In the Board of Directors meeting held on 25 January 2012; it was decided to close TSKB Bahrain Branch of the Parent Bank and in this context, General Management was authorized for the required operations. In accordance with the decision, the Parent Bank management has started to executions in order to terminate the Bahrain Branch activities. As of 27 December 2012, closing procedures of the Bahrain Branch have been completed.

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

SECTION SIX

OTHER EXPLANATIONS

I. Other explanations related to the operations of the Parent Bank

1.a Brief information related to rating carried out by international rating firms:

FITCH RATINGS

Long-term Maturity Foreign Currency (issuer)	BBB-
Long-term Maturity Foreign Currency Outlook (issuer)	Stable
Short-term Maturity Foreign Currency (issuer)	F3
Long-term Maturity National Currency (issuer)	BBB
Long-term Maturity National Currency Outlook (issuer)	Stable
Short-term Maturity National Currency (issuer)	F3
Support Note	2
National Support Note	BBB-
National Note	AAA
National Note Outlook	Stable

Information above is received from Fitch Ratings report dated 31 October 2013.

MOODY'S

Financial Rating Note	D+
Outlook	Stable
Foreign Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Stable
Short-term Maturity	P-3
Domestic Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Stable
Short-term Maturity	P-3

Information above represents updated information as of 3 July 2012.

1.b Informations on corporate governance rating of the Bank:

SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services A.Ş.), a corporate governance rating institution with Capital Markets Board license, declared the Bank's corporate governance rating of 9,11 over 10 (91,09%) has increased to 9,40 (94,03%) on its revision report dated 21 October 2013 based on the investigation performed. With respect to CMB's resolution, ratings under the main topics of weighted Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors are revised and declared as; 88,65 (Weight: 25%), 97,08 (Weight: 25%), 95,44 (Weight: 15%), 95,08 (Weight: 35%) respectively.

II. Other explanations related to the events after the reporting date

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 nominal amount of TL 21.000 to Borsa Istanbul A.Ş. at a price of TL 33.390 and the sale amount was collected within the same day.

SECTION SEVEN

INDEPENDENT AUDITORS' REPORT

I. Explanations on the independent auditors' report

Consolidated financial statements and the notes to the financial statements as at 31 December 2013 have been audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. ("the Turkish member firm of KPMG International, a Swiss entity"). The independent auditors' report dated 4 February 2014 is presented at the beginning of the consolidated financial statements and related notes.

II. Explanations and notes prepared by independent auditors

There are no other explanations and notes not expressed in sections above related with the Group's operations.

APPENDIX B3

AUDITED BRSA FINANCIAL STATEMENTS OF THE GROUP FOR THE FISCAL YEAR ENDED 31 DECEMBER 2012 (INCLUDING COMPARATIVE 2011 INFORMATION)

KPMG

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As of and for the Year Ended 31 December 2012
(Convenience Translation of Consolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

12 February 2013

This report contains "Independent Auditors' Report" comprising 2 pages and; "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 112 pages.

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

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

Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası A.Ş.
Istanbul

We have audited the consolidated balance sheet of Türkiye Sınai Kalkınma Bankası A.Ş. ("the Bank") and its subsidiaries (collectively "the Group") as of 31 December 2012 and the related consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' Responsibility for the Financial Statements

The Board of Directors of the Bank is responsible for the establishment of an internal control system, selection and application of appropriate accounting policies for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" published in the Official Gazette dated 1 November 2006 and numbered 26333 and Turkish Accounting Standards, Turkish Financial Reporting Standards and other regulations, explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency (BRSA) and declarations by the Banking Regulation and Supervision Board, free of material misstatement, whether due to fraud or error, that could lead to false information within.

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 the "Regulation on Authorization and Activities of Institutions to Perform Independent Audit at Banks" published on the Official Gazette dated 1 November 2006 and numbered 26333 and International Standards on Auditing. We planned and conducted our audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Our audit includes using the audit techniques for the purpose of obtaining evidence supporting the amounts and disclosures in the financial statements. The selection of the audit techniques made in accordance with our professional judgment by taking the effectiveness of the controls over financial reporting into and assessing the appropriateness of the applied accounting policies. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion expressed below.

Opinion

In our opinion, based on our audit, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Sınai Kalkınma Bankası A.Ş. as of 31 December 2012 and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with the prevailing accounting principles and standards as per the Articles 37 and 38 of (Turkish) Banking Law No: 5411 and other regulations, explanations and circulars on accounting and financial reporting principles announced by BRSA.

Istanbul,
12 February 2013

Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik
Anonim Şirketi

Orhan Akova
Partner

Additional paragraph for convenience translation to English:

As explained in Section 3 Note I, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

TSKB

THE CONSOLIDATED FINANCIAL REPORT OF
TÜRKİYE SINAİ KALKINMA BANKASI A.Ş.
FOR THE YEAR ENDED 31 DECEMBER 2012

The consolidated financial report for the year end includes the following sections in accordance with "Communiqué on the Financial Statements and Related Explanation and Notes that will be made Publicly Announced" as sanctioned by the Banking Regulation and Supervision Agency:

- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON THE CORRESPONDING ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE OF THE GROUP WHICH IS UNDER CONSOLIDATION
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

The subsidiaries, associates and joint ventures, whose financial statements are consolidated within the framework of the reporting package, are as follows:

Subsidiaries	Associates
Yatırım Finansman Menkul Değerler A.Ş.	İş Finansal Kiralama A.Ş.
TSKB Gayrimenkul Yatırım Ortaklığı A.Ş.	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.
	İş Factoring Finansman Hizmetleri A.Ş.

The accompanying consolidated financial statements and the explanatory footnotes and disclosures for the year end, unless otherwise indicated, are prepared in **thousands of Turkish Lira ("TRY")**, in accordance with the Communiqué on Bank's Accounting Practice and Maintaining Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, related communiqués and the Bank's records, and have been independently audited and presented as attached.

12 February 2013

Adnan BALİ	A. Orhan BEŞKÖK	Ömer ERYILMAZ	Mustafa GÖKTAŞ
Chairman of Board of Directors	Deputy General Manager	Executive Vice President In Charge of Financial Reporting	Head of Financial Control Department

M. Baran TUNCER	Kemal Serdar DİŞLİ	Murat BİLGİÇ
Member of Audit Committee	Member of Audit Committee	Member of Audit Committee

Contact information of the personnel in charge for addressing questions about this financial report:

Name-Surname / Title : Mustafa Göktaş / Head of Financial Control Department
Telephone Number : (0212) 334 51 92
E-Mail Address : goktasm@tskb.com.tr

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Accounting Policies

SECTION FOUR
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SECTION SIX
Other Explanations

SECTION SEVEN
Independent Auditors' Report

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

SECTION ONE

GENERAL INFORMATION

I. The Parent Bank's incorporation date, beginning statue, changes in the existing statue

Türkiye Sınai Kalkınma Bankası ("The Parent Bank") was established in accordance with the decision of President of the Republic of Turkey numbered 3/11203 on 12 May 1950. This decision was declared by T.R. Office of Prime Ministry Procedures Directorate Decision Management on 12 May 1950.

According to the classification set out in the Banking Law No: 5411, the statute of the Parent Bank is "Development and Investment Bank". The Parent Bank does not have the authority of "Accepting Deposit". Since the establishment date of the Parent Bank, there is no change in its "Development and Investment Bank" status.

II. Explanations regarding the Parent Bank's shareholding structure, shareholders holding directly or indirectly, collectively or individually, the managing and controlling power and changes in current year, if any and explanations on the controlling group of the Parent Bank

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power indirectly or directly, alone or together with other shareholders. Shareholders of the Parent Bank are as follows:

Current Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	550.001	50,00	550.001	-
T. Vakıflar Bankası T.A.O.	92.152	8,38	92.152	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	457.829	41,62	457.829	-
Physically Under Custody (Other Institutions and Individuals)	18	-	18	-
Total	**1.100.000**	**100,00**	**1.100.000**	**-**

Prior Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	400.001	50,00	400.001	-
T. Vakıflar Bankası T.A.O.	67.020	8,38	67.020	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	332.969	41,62	332.969	-
Physically Under Custody (Other Institutions and Individuals)	10	-	10	-
Total	**800.000**	**100,00**	**800.000**	**-**

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

III. Explanations regarding the chairman and the members of board of directors, audit committee, general manager and assistant general managers and their shares in the Parent Bank

The Chairman and The Members of Board of Directors:

Name Surname	Title (1)	Date of Appointment	Academic Background	Experience in Banking and Management Before Appointment
Adnan Bali (6)	Chairman of the Board of Directors	15 April 2011	Undergraduated	27
Mehmet Şencan	Vice Chairman of the Board of Directors	7 June 2011	Undergraduated	25
Durmuş Yılmaz (2) (7)	Member of the Board of Directors	26 March 2012	Postgraduate	33
Mustafa Baran Tuncer	Member of the Board of Directors and Audit Committee	30 April 2008	Doctorate	33
Ertan Burhanettin Kantar (6)	Member of the Board of Directors	23 March 2005	Undergraduated	24
Kemal Serdar Dişli	Member of the Board of Directors and Audit Committee	25 May 2007	Undergraduated	25
Murat Bilgiç (3)	Member of the Board of Directors and Audit Committee	23 March 2005	Postgraduate	22
Yonca Koçak (3)	Member of the Board of Directors	21 July 2010	Undergraduated	22
Feridun Bilgin (7)	Member of the Board of Directors	12 September 2012	Doctorate	16
Uygar Şafak Öğün (7)	Member of the Board of Directors	2 April 2010	Postgraduate	18
H. Fevzi Onat (8)	Member of the Board of Directors and General Manager	30 May 2011	Undergraduated	31

General Manager, Vice Presidents and Statutory Auditors :

Name Surname	Title / Area of Responsibility	Date of Appointment	Academic Background	Experience in Banking and Management Before Appointment
H. Fevzi Onat (8)	General Manager	30 May 2011	Undergraduated	31
A.Orhan Beşkök	Senior Vice President - Technical Services and Financial Institutions	24 January 2002	Postgraduate	30
Burak Akgüç	Vice President – Corporate Marketing and Corporate Finance	29 December 2004	Undergraduated	23
Ömer Eryılmaz	Vice President – Financial Control and Securities	27 January 2006	Undergraduated	27
Çiğdem İçel	Vice President – Treasury and Human Resources	27 January 2006	Undergraduated	23
Ufuk Bala Yücel	Vice President - Project Finance and Loans	25 December 2007	Undergraduated	26
B. Gökhan Çanakpınar	Vice President – Information Technology and Loan-Treasury Operation	10 January 2012	Undergraduated	23
M. Armağan Saraçoğlu (5)	Statutory Auditor	4 September 2012	Undergraduated	14
Hamide Esma Uygun Çelikten	Statutory Auditor	25 March 2011	Undergraduated	16

(1) The shares of above directors in the Bank are symbolic.
(2) In the General Assembly meeting held on 26 March 2012, because of Mr. Yavuz Canevi's expiration of the duty period, Mr. Durmuş Yılmaz was elected as the Board of Directors Member for three years period.
(3) In the Board of Directors meeting held on 29 August 2012, in accordance with the Article No.25 of Law About Validity and Manner of Application of Turkish Commercial Code Article No.6103, Murat Bilgiç and Yonca Koçak who have resigned of their duties member of the Board of Directors were elected again as Member of Board of Director in accordance with article no.363 of Turkish Commercial Code to be submitted to approval on the First General Assembly.
(4) Mehmet Coşkun Cangöz, member of the Board of Directors, resigned from his duty of the member of the Board of Directors on 31 August 2012.
(5) Volkan Kublay, auditor of the Bank has resigned his duty and Muzaffer Armağan Saraçoğlu was elected as auditor of the Bank.
(6) In the Board of Directors meeting held on 4 September 2012, in accordance with the Article No.25 of Law About Validity and Manner of Application of Turkish Commercial Code Article No.6103, Adnan Bali and Burhanettin Kantar who have resigned of their duties in member of the Board of Directors were reelected as members of the Board of Directors in accordance with article no.363 of Turkish Commercial Code to be submitted to approval on the First General Assembly.
(7) In the Board of Directors meeting held on 12 September 2012, in accordance with Article No.25 of Law About Validity and Manner of Application of Turkish Commercial Code Article No.6103, Adnan Bali and Burhanettin Kantar who have resigned of their duties in member of the Board of Directors were reelected as member of the Board of Directors in accordance with article no.363 of Turkish Commercial Code to be submitted to approval on the First General Assembly. Feridun Bilgin was elected as a member of the Board of Directors substituted for Mehmet Coşkun Cangöz who has resigned from his duty from member of the Board of Directors in accordance with Article No.25 of Law About Validity and Manner of Application of Turkish Commercial Code Article No.6103 and Article no. 363 of Turkish commercial Code to be submitted to approval on the First General Assembly.
(8) Member of the Board of Directors and General Manager H. Fevzi Onat has retired from his duty as the member of the Board of Directors and General Manager of the Bank due to retirement. As the date of 1 February 2013, Özcan Türkakın was elected to vacant position on the Board of Directors in accordance with the Article No. 363 of Turkish Commercial Code and has started his duty after he has sworn on 4 February 2013. Appointed General Manager of the Bank is expected to be Özcan Türkakın and Özcan Türkakın will be start his duty after completion of legal procedures

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

IV. Information about the persons and institutions that have qualified shares in the Parent Bank

T. İş Bankası A.Ş. (İş Bank) Group owns the qualified shares that control the Parent Bank's capital directly or indirectly.

Current Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	550.001	50,00	550.001	-
T. Vakıflar Bankası T.A.O.	92.152	8,38	92.152	-
Under Custody at Merkezi Kayıt Kuruluşu Other Institutions and Individuals	457.829	41,62	457.829	-
Physically Under Custody (Other Institutions and Individuals)	18	-	18	-
Total	**1.100.000**	**100,00**	**1.100.000**	**-**

Prior Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	400.001	50,00	400.001	-
T. Vakıflar Bankası T.A.O.	67.020	8,38	67.020	-
Under Custody at Merkezi Kayıt Kuruluşu Other Institutions and Individuals	332.969	41,62	332.969	-
Physically Under Custody (Other Institutions and Individuals)	10	-	10	-
Total	**800.000**	**100,00**	**800.000**	**-**

V. Summary on the Parent Bank's functions and areas of activity

Türkiye Sınai Kalkınma Bankası A.Ş. ("the Parent Bank") is the first private investment and development bank which was established by the Council of Ministers resolution number of 3/11203 established in 1950 with the support of World Bank, T.R. Government, T.R. Central Bank and commercial banks. As per the articles of association published in the Official Gazette on 2 June 1950, the aim of TSKB is to support all private sector investments but mostly industrial sectors, to help domestic and foreign capital owners to finance the new firms and to help the improvement of Turkish capital markets. The Bank is succeeding its aims by financing, consulting, giving technical support and financial intermediary services. The Parent Bank, which operates as a non-deposit accepting bank, played a major role on manufacturing and finance sectors in every phase of the economic development of Turkey. The Parent Bank has supported the development of the private sector by extending medium-term loans to more than 4.000 firms. After 1960's the Parent Bank had continued to finance over 100 firms by investing in these entities as a shareholder. The Parent Bank has also participated in improvement of capital markets by organizing public offerings of some firms.

The Parent Bank has opened two branches in Izmir and Ankara in April 2006 to enhance marketing and valuation operations. TSKB Bahrain Branch, is the only branch of TSKB in abroad, started its operations on 18 January 2005 after obtaining the off-shore banking license from Bahrain Central Bank (BMA) on 30 December 2004. The mission of the branch is to expand to the Middle East and exercise all activities including capital market transactions and giving foreign currency loans. In the Board of Directors meeting held on 25 January 2012; it was decided to close the Bahrain Branch of the Parent Bank and in this context, General Management was authorized for the required operations. In accordance with the decision, the Parent Bank management has started to executions in order to terminate the Bahrain Branch activities. As of 27 December 2012, closing procedures of the Bahrain Branch have been completed.

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

VI. Differences between the communiqué on preparation of consolidated financial statements of banks and Turkish Accounting Standards and short explanation about the institution subject to line-by-line method or proportional consolidation and institutions which are deducted from equity or not included in these three methods

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiaries and associates, TSKB Gayrimenkul Değerleme A.Ş., TSKB Gayrimenkul Danışmanlık A.Ş., Terme Metal Sanayi ve Ticaret A.Ş., Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. and Adana Otel Projesi Adi Ortaklığı are not consolidated since they are not in scope of financial institutions according to related communiqué.

Türkiye Sınai Kalkınma Bankası A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Factoring Finansman Hizmetleri A.Ş. are included in the accompanying consolidated financial statements by equity method.

Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340.

The Parent Bank has no partnership share on banks and financial institutions, with shareholding of more than 10% and deducted from capital.

Yatırım Finansman Menkul Değerler A.Ş. :

Yatırım Finansman Menkul Değerler A.Ş. was established with the title of Yatırım Finansman A.Ş. and registered in Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. Title of the Company was changed into Yatırım Finansman Menkul Değerler A.Ş. by the announcement made in the Turkish Trade Registry Gazette No: 4762 on 2 April 1999. The Company's purpose is to perform capital market operations specified in the Company's main contract in accordance with the CMB and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :

Core business of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The Company was established on 3 February 2006.

İş Finansal Kiralama A.Ş. :

İş Finansal Kiralama A.Ş. 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 1988. The Company's headquarters is located at Istanbul/Türkiye.

İş Factoring Finansman Hizmetleri A.Ş. :

İş Factoring Finansman Hizmetleri A.Ş., was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş with 78,23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :

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

SECTION ONE (Continued)

GENERAL INFORMATION (Continued)

VII. The existing or potential, actual or legal obstacle on the transfer of shareholder's equity between the Parent Bank and its subsidiaries or the reimbursement of liabilities

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Parent Bank and its subsidiaries. The Parent Bank charge or pay cost of the services according to the service agreements done between the Parent Bank and its subsidiaries. Dividend distribution from shareholders' equity is made according to related legal regulations.

Written policies of the Parent Bank related to compliance to publicly disclosed obligations of the Parent Bank and assessment of accuracy, frequency and compliance of mentioned disclosures

TSKB Disclosure Policy approved by the meeting of the Board of Directors and entered into force on 28 February 2011. Compliance to publicly disclosed obligations, frequency of public disclosures and tools and methods used for public disclosures are explained in the disclosure policy of the Parent Bank accessible from the TSKB corporate website.

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

			Audited Current Period 31 December 2012			Audited Prior Period 31 December 2011		
	ASSETS	**Note Ref.**	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	**CASH AND BALANCES WITH THE CENTRAL BANK**	(1)	**25.465**	**107.201**	**132.666**	**5.457**	**115.652**	**121.109**
II.	**FINANCIAL ASSETS AT F.V. THROUGH PROFIT AND LOSS (Net)**	(2)	**23.336**	**17.833**	**41.169**	**115.857**	**34.468**	**150.325**
2.1	Trading financial assets		23.336	17.833	41.169	115.857	34.468	150.325
2.1.1	Public sector debt securities		7.753	733	8.486	83.623	716	84.339
2.1.2	Share certificates		2.581	-	2.581	15.239	-	15.239
2.1.3	Derivative financial assets held for trading		6.143	17.100	23.243	11.601	33.752	45.353
2.1.4	Other marketable securities		6.859	-	6.859	5.394	-	5.394
2.2	Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1	Public sector debt securities		-	-	-	-	-	-
2.2.2	Share certificates		-	-	-	-	-	-
2.2.3	Other marketable securities		-	-	-	-	-	-
2.2.4	Loans		-	-	-	-	-	-
III.	**BANKS**	(3)	**377.261**	**62.814**	**440.075**	**19.045**	**406.181**	**425.226**
IV.	**MONEY MARKET PLACEMENTS**		**199**	**-**	**199**	**109.365**	**-**	**109.365**
4.1	Interbank money market placements		-	-	-	102.102	-	102.102
4.2	Istanbul Stock Exchange money market placements		-	-	-	335	-	335
4.3	Receivables from reverse repurchase agreements		199	-	199	6.928	-	6.928
V.	**FINANCIAL ASSETS AVAILABLE FOR SALE (Net)**	(4)	**2.407.613**	**474.649**	**2.882.262**	**1.745.840**	**571.043**	**2.316.883**
5.1	Share certificates		35.570	2.957	38.527	23.575	2.957	26.532
5.2	Public sector debt securities		2.127.232	342.798	2.470.030	1.617.661	378.877	1.996.538
5.3	Other marketable securities		244.811	128.894	373.705	104.604	189.209	293.813
VI.	**LOANS**	(5)	**1.696.982**	**5.117.237**	**6.814.219**	**1.793.408**	**4.473.548**	**6.266.956**
6.1	Loans		1.696.982	5.117.237	6.814.219	1.793.408	4.473.548	6.266.956
6.1.1	Loans to risk group of the Bank		105.631	129.431	235.062	85.465	99.149	184.614
6.1.2	Public sector debt securities		-	-	-	-	-	-
6.1.3	Other		1.591.351	4.987.806	6.579.157	1.707.943	4.374.399	6.082.342
6.2	Non performing loans		10.172	5.452	15.624	12.989	14.709	27.698
6.3	Specific provisions (-)		(10.172)	(5.452)	(15.624)	(12.989)	(14.709)	(27.698)
VII.	**FACTORING RECEIVABLES**		**-**	**-**	**-**	**-**	**-**	**-**
VIII.	**HELD TO MATURITY INVESTMENTS (Net)**	(6)	**-**	**-**	**-**	**126.955**	**-**	**126.955**
8.1	Public sector debt securities		-	-	-	126.955	-	126.955
8.2	Other marketable securities		-	-	-	-	-	-
IX.	**INVESTMENTS IN ASSOCIATES (Net)**	(7)	**211.572**	**-**	**211.572**	**191.563**	**-**	**191.563**
9.1	Accounted for under equity method		210.046	-	210.046	190.472	-	190.472
9.2	Unconsolidated associates		1.526	-	1.526	1.091	-	1.091
9.2.1	Financial investments		-	-	-	-	-	-
9.2.2	Non-financial investments		1.526	-	1.526	1.091	-	1.091
X.	**INVESTMENTS IN SUBSIDIARIES (Net)**	(8)	**847**	**-**	**847**	**842**	**-**	**842**
10.1	Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2	Unconsolidated non-financial subsidiaries		847	-	847	842	-	842
XI.	**ENTITIES UNDER COMMON CONTROL (JOINT VENT.) (Net)**	(9)	**10**	**-**	**10**	**10**	**-**	**10**
11.1	Consolidated under equity method		-	-	-	-	-	-
11.2	Unconsolidated		10	-	10	10	-	10
11.2.1	Financial subsidiaries		-	-	-	-	-	-
11.2.2	Non-financial subsidiaries		10	-	10	10	-	10
XII.	**LEASE RECEIVABLES (Net)**	(10)	**-**	**9.432**	**9.432**	**-**	**28.400**	**28.400**
12.1	Finance lease receivables		-	9.758	9.758	-	29.577	29.577
12.2	Operating lease receivables		-	-	-	-	-	-
12.3	Other		-	-	-	-	-	-
12.4	Unearned income (-)		-	(326)	(326)	-	(1.177)	(1.177)
XIII.	**DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES**	(11)	**-**	-	-	-	-	-
13.1	Fair value hedge		-	-	-	-	-	-
13.2	Cash flow hedge		-	-	-	-	-	-
13.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
XIV.	**TANGIBLE ASSETS (Net)**	(12)	**23.786**	**-**	**23.786**	**24.222**	**2**	**24.224**
XV.	**INTANGIBLE ASSETS (Net)**	(13)	**2.020**	**-**	**2.020**	**1.870**	**-**	**1.870**
15.1	Goodwill		1.005	-	1.005	1.005	-	1.005
15.2	Other		1.015	-	1.015	865	-	865
XVI.	**INVESTMENT PROPERTY (Net)**	(14)	**240.370**	**-**	**240.370**	**226.805**	**-**	**226.805**
XVII.	**TAX ASSET**	(15)	**8.629**	**-**	**8.629**	**17.332**	**-**	**17.332**
17.1	Current tax asset		2.986	-	2.986	1.668	-	1.668
17.2	Deferred tax asset		5.643	-	5.643	15.664	-	15.664
XVIII.	**ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)**	(16)	**-**	**-**	**-**	**-**	**-**	**-**
18.1	Assets held for sale		-	-				-
18.2	Assets of discontinued operations		-	-	-	-	-	-
XIX.	**OTHER ASSETS**	(17)	**33.790**	**16.272**	**50.062**	**74.885**	**50.884**	**125.769**
	TOTAL ASSETS		**5.051.880**	**5.805.438**	**10.857.318**	**4.453.456**	**5.680.178**	**10.133.634**

TÜRKİYE SINAI KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)
AT 31 DECEMBER 2012

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

			Audited Current Period 31 December 2012			Audited Prior Period 31 December 2011		
	LIABILITIES	**Note Ref**	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
I.	**DEPOSITS**	(1)	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Deposits from Risk Group of the Bank		-	-	-	-	-	-
1.2	Other		-	-	-	-	-	-
II.	**DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING**	(2)	**1.565**	**19.432**	**20.997**	**6.470**	**42.273**	**48.743**
III.	**FUNDS BORROWED**	(3)	**142.819**	**6.886.786**	**7.029.605**	**23.763**	**6.761.772**	**6.785.535**
IV.	**MONEY MARKET BALANCES**	(3)	**1.265.318**	**237.310**	**1.502.628**	**1.190.401**	**177.962**	**1.368.363**
4.1	Interbank money market takings		247.991	19.458	267.449	420.609	-	420.609
4.2	Istanbul Stock Exchange money market takings		-	-	-	-	-	-
4.3	Funds provided under repurchase agreements		1.017.327	217.852	1.235.179	769.792	177.962	947.754
V.	**DEBT SECURITIES ISSUED (Net)**		-	-	-	-	-	-
5.1	Bills		-	-	-	-	-	-
5.2	Asset backed securities		-	-	-	-	-	-
5.3	Bonds		-	-	-	-	-	-
VI.	**FUNDS**		**1.909**	**7.836**	**9.745**	**1.559**	**6.335**	**7.894**
6.1	Borrower funds		1.909	7.836	9.745	1.559	6.335	7.894
6.2	Others		-	-	-	-	-	-
VII.	**MISCELLANEOUS PAYABLES**		**77.233**	**35.597**	**112.830**	**128.180**	**20.480**	**148.660**
VIII.	**OTHER LIABILITIES**	(4)	-	-	-	-	-	-
IX.	**FACTORING PAYABLES**		-	-	-	-	-	-
X.	**LEASE PAYABLES**	(5)	6	-	6	-	-	-
10.1	Finance lease payables		6	2	8	-	2	2
10.2	Operating lease payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred finance lease expenses (-)		-	(2)	(2)	-	(2)	(2)
XI.	**DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES**	(6)	-	-	-	-	-	-
11.1	Fair value hedge		-	-	-	-	-	-
11.2	Cash flow hedge		-	-	-	-	-	-
11.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
XII.	**PROVISIONS**	(7)	**140.173**	**-**	**140.173**	**104.670**	**-**	**104.670**
12.1	General loan loss provisions		77.247	-	77.247	58.491	-	58.491
12.2	Restructuring provisions		-	-	-	-	-	-
12.3	Reserve for employee benefits		8.986	-	8.986	5.859	-	5.859
12.4	Insurance technical reserves (Net)		-	-	-	-	-	-
12.5	Other provisions		53.940	-	53.940	40.320	-	40.320
XIII.	**TAX LIABILITY**	(8)	**33.207**	**-**	**33.207**	**17.668**	**-**	**17.668**
13.1	Current tax liability		33.207	-	33.207	17.668	-	17.668
13.2	Deferred tax liability		-	-	-	-	-	-
XIV.	**PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**	(9)	-	-	-	-	-	-
14.1	Held for sale		-	-	-	-	-	-
14.2	Discontinued operations		-	-	-	-	-	-
XV.	**SUBORDINATED LOANS**	(10)	**-**	**89.125**	**89.125**	**-**	**95.000**	**95.000**
XVI.	**SHAREHOLDERS' EQUITY**	(11)	**1.849.617**	**69.385**	**1.919.002**	**1.537.095**	**20.006**	**1.557.101**
16.1	Paid-in capital		1.100.000	-	1.100.000	800.000	-	800.000
16.2	Capital reserves		100.288	69.385	169.673	29.115	20.006	49.121
16.2.1	Share premium		388	-	388	413	-	413
16.2.2	Share cancellation profits		-	-	-	-	-	-
16.2.3	Marketable securities value increase fund	(11)	64.369	69.385	133.754	(2.846)	20.006	17.160
16.2.4	Tangible assets revaluation differences	(11)	35.157	-	35.157	31.174	-	31.174
16.2.5	Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6	Investment property revaluation differences		-	-	-	-	-	-
16.2.7	Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)		-	-	-	-	-	-
16.2.8	Hedging reserves (Effective portion)		-	-	-	-	-	-
16.2.9	Revaluation surplus on assets held for sale and discontinued operations		-	-	-	-	-	-
16.2.10	Other capital reserves		374	-	374	374	-	374
16.3	Profit reserves		195.793	-	195.793	300.572	-	300.572
16.3.1	Legal reserves	(11)	125.052	-	125.052	97.975	-	97.975
16.3.2	Statutory reserves		60.277	-	60.277	47.510	-	47.510
16.3.3	Extraordinary reserves	(11)	7.544	-	7.544	152.167	-	152.167
16.3.4	Other profit reserves		2.920	-	2.920	2.920	-	2.920
16.4	Profit or loss		369.263	-	369.263	310.617	-	310.617
16.4.1	Prior years' profit/loss		52.253	-	52.253	49.854	-	49.854
16.4.2	Current year profit/loss		317.010	-	317.010	260.763	-	260.763
16.5	Non-controlling interests	(12)	84.273	-	84.273	96.791	-	96.791
	TOTAL LIABILITIES AND EQUITY		**3.511.847**	**7.345.471**	**10.857.318**	**3.009.806**	**7.123.828**	**10.133.634**

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

TÜRKİYE SINAI KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS
AT 31 DECEMBER 2012

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

			Audited Current Period 31 December 2012			Audited Prior Period 31 December 2011		
		Note Ref	**TL**	**FC**	**Total**	**TL**	**FC**	**Total**
A.	**OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)**		**1.642.823**	**5.350.160**	**6.992.983**	**2.992.808**	**7.744.816**	**10.737.624**
I.	**GUARANTEES AND COLLATERALS**	(1)	**290.755**	**921.802**	**1.212.557**	**298.455**	**970.524**	**1.268.979**
1.1	Letters of guarantee		286.530	349.238	635.768	278.215	411.262	689.477
1.1.1	Guarantees subject to State Tender Law		-	-	-	-	-	-
1.1.2	Guarantees given for foreign trade operations		-	-	-	-	-	-
1.1.3	Other letters of guarantee		286.530	349.238	635.768	278.215	411.262	689.477
1.2	Bank acceptances		-	-	-	-	3.333	3.333
1.2.1	Import letters of acceptance		-	-	-	-	3.333	3.333
1.2.2	Other bank acceptances		-	-	-	-	-	-
1.3	Letters of credit		-	572.564	572.564	-	555.929	555.929
1.3.1	Documentary letters of credit		-	572.564	572.564	-	555.929	555.929
1.3.2	Other letters of credit		-	-	-	-	-	-
1.4	Prefinancing given as guarantee		-	-	-	-	-	-
1.5	Endorsements		-	-	-	-	-	-
1.5.1	Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2	Other endorsements		-	-	-	-	-	-
1.6	Securities issue purchase guarantees		-	-	-	-	-	-
1.7	Factoring guarantees		-	-	-	-	-	-
1.8	Other guarantees		4.225	-	4.225	20.240	-	20.240
1.9	Other collaterals		-	-	-	-	-	-
II.	**COMMITMENTS**	(1)	**1.157.941**	**1.643.773**	**2.801.714**	**1.513.692**	**2.985.994**	**4.499.686**
2.1	Irrevocable commitments		466.541	22.102	488.643	468.568	146.519	615.087
2.1.1	Forward asset purchase and sales commitments		2.770	7.405	10.175	22.145	128.179	150.324
2.1.2	Forward deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3	Share capital commitment to associates and subsidiaries		120	-	120	-	-	-
2.1.4	Loan granting commitments		-	4.007	4.007	-	6.968	6.968
2.1.5	Securities underwriting commitments		-	-	-	-	-	-
2.1.6	Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7	Payment commitment for checks		-	-	-	-	-	-
2.1.8	Tax and fund liabilities from export commitments		-	-	-	-	-	-
2.1.9	Commitments for credit card expenditure limits		-	-	-	-	-	-
2.1.10	Commitments for promotions related with credit cards and banking activities		-	-	-	-	-	-
2.1.11	Receivables from short sale commitments		-	-	-	-	-	-
2.1.12	Payables for short sale commitments		-	-	-	-	-	-
2.1.13	Other irrevocable commitments		463.651	10.690	474.341	446.423	11.372	457.795
2.2	Revocable commitments		691.400	1.621.671	2.313.071	1.045.124	2.839.475	3.884.599
2.2.1	Revocable loan granting commitments		691.400	1.621.671	2.313.071	1.045.124	2.839.475	3.884.599
2.2.2	Other revocable commitments		-	-	-	-	-	-
III.	**DERIVATIVE FINANCIAL INSTRUMENTS**	(2)	**194.127**	**2.784.585**	**2.978.712**	**1.180.661**	**3.788.298**	**4.968.959**
3.1	Derivative financial instruments for hedging purposes		-	-	-	-	-	-
3.1.1	Fair value hedge		-	-	-	-	-	-
3.1.2	Cash flow hedge		-	-	-	-	-	-
3.1.3	Hedge of net investment in foreign operations		-	-	-	-	-	-
3.2	Held for trading transactions		194.127	2.784.585	2.978.712	1.180.661	3.788.298	4.968.959
3.2.1	Forward foreign currency buy/sell transactions		110.621	364.896	475.517	361.494	873.353	1.234.847
3.2.1.1	Forward foreign currency transactions-buy		55.432	182.456	237.888	277.535	341.027	618.562
3.2.1.2	Forward foreign currency transactions-sell		55.189	182.440	237.629	83.959	532.326	616.285
3.2.2	Swap transactions related to f.c. and interest rates		52.038	2.300.268	2.352.306	172.378	2.092.041	2.264.419
3.2.2.1	Foreign currency swaps-buy		37.968	318.374	356.342	158.308	285.670	443.978
3.2.2.2	Foreign currency swaps-sell		14.070	336.020	350.090	14.070	429.455	443.525
3.2.2.3	Interest rate swaps-buy		-	822.937	822.937	-	688.458	688.458
3.2.2.4	Interest rate swaps-sell		-	822.937	822.937	-	688.458	688.458
3.2.3	Foreign currency, interest rate and securities options		31.468	119.421	150.889	644.850	822.904	1.467.754
3.2.3.1	Foreign currency options-buy		15.734	43.896	59.630	322.425	386.498	708.923
3.2.3.2	Foreign currency options-sell		15.734	44.325	60.059	322.425	386.498	708.923
3.2.3.3	Interest rate options-buy		-	15.600	15.600	-	24.954	24.954
3.2.3.4	Interest rate options-sell		-	15.600	15.600	-	24.954	24.954
3.2.3.5	Securities options-buy		-	-	-	-	-	-
3.2.3.6	Securities options-sell		-	-	-	-	-	-
3.2.4	Foreign currency futures		-	-	-	-	-	-
3.2.4.1	Foreign currency futures-buy		-	-	-	-	-	-
3.2.4.2	Foreign currency futures-sell		-	-	-	-	-	-
3.2.5	Interest rate futures		-	-	-	-	-	-
3.2.5.1	Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2	Interest rate futures-sell		-	-	-	-	-	-
3.2.6	Other		-	-	-	1.939	-	1.939
B.	**CUSTODY AND PLEDGED SECURITIES (IV+V+VI)**		**5.378.889**	**70.139.115**	**75.518.004**	**6.545.437**	**63.816.275**	**70.361.712**
IV.	**ITEMS HELD IN CUSTODY**		**1.288.698**	**264.194**	**1.552.892**	**1.113.363**	**228.512**	**1.341.875**
4.1	Customers' securities held		8.619	-	8.619	31.722	-	31.722
4.2	Investment securities held in custody		297.966	264.194	562.160	311.484	228.512	539.996
4.3	Checks received for collection		-	-	-	-	-	-
4.4	Commercial notes received for collection		-	-	-	-	-	-
4.5	Other assets received for collection		-	-	-	-	-	-
4.6	Assets received for public offering		-	-	-	-	-	-
4.7	Other items under custody		3.335	-	3.335	18.402	-	18.402
4.8	Custodians		978.778	-	978.778	751.755	-	751.755
V.	**PLEDGED ITEMS**		**3.136.693**	**45.668.955**	**48.805.648**	**4.489.581**	**38.583.829**	**43.073.410**
5.1	Marketable securities		2.935	1.208.830	1.211.765	2.931	1.282.865	1.285.796
5.2	Guarantee notes		53.398	1.300.783	1.354.181	67.993	1.574.739	1.642.732
5.3	Commodity		-	-	-	-	-	-
5.4	Warranty		-	-	-	-	-	-
5.5	Real estates		90.594	16.092.349	16.182.943	112.594	6.912.897	7.025.491
5.6	Other pledged items		2.989.766	27.066.993	30.056.759	4.306.063	28.813.328	33.119.391
5.7	Pledged items-depository		-	-	-	-	-	-
VI.	**ACCEPTED BILLS OF EXCHANGE AND COLLATERALS**		**953.498**	**24.205.966**	**25.159.464**	**942.493**	**25.003.934**	**25.946.427**
	TOTAL OFF BALANCE SHEET ITEMS (A+B)		**7.021.712**	**75.489.275**	**82.510.987**	**9.538.245**	**71.561.091**	**81.099.336**

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

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

		Note Ref.	Audited Current Period 1 January 2012 – 31 December 2012	Audited Prior Period 1 January 2011 – 31 December 2011
I.	**INTEREST INCOME**	(1)	**613.037**	**534.704**
1.1	Interest on loans		332.958	288.562
1.2	Interest received from reserve deposits		-	-
1.3	Interest received from banks		23.168	31.249
1.4	Interest received from money market placements		6.857	3.959
1.5	Interest received from marketable securities portfolio		248.776	208.556
1.5.1	Financial assets held for trading		3.756	6.450
1.5.2	Financial assets at fair value through profit and loss		-	-
1.5.3	Available-for-sale financial assets		237.327	166.289
1.5.4	Investments held-to-maturity		7.693	35.817
1.6	Finance lease income		1.066	2.144
1.7	Other interest income		212	234
II.	**INTEREST EXPENSES**	(2)	**(188.193)**	**(174.582)**
2.1	Interest on deposits		-	-
2.2	Interest on funds borrowed		(93.343)	(80.394)
2.3	Interest on money market borrowings		(94.733)	(90.231)
2.4	Interest on securities issued		-	(3.922)
2.5	Other interest expense		(117)	(35)
III.	**NET INTEREST INCOME (I - II)**		**424.844**	**360.122**
IV.	**NET FEES AND COMMISSIONS INCOME**		**26.520**	**28.252**
4.1	Fees and commissions received		29.842	30.350
4.1.1	Non-cash loans		10.115	5.617
4.1.2	Other		19.727	24.733
4.2	Fees and commissions paid		(3.322)	(2.098)
4.2.1	Non-cash loans		(1.021)	(3)
4.2.2	Other		(2.301)	(2.095)
V.	**DIVIDEND INCOME**	(3)	**6.014**	**5.222**
VI.	**NET TRADING INCOME**	(4)	**26.309**	**(20.025)**
6.1	Securities trading gains/ (losses)		2.818	(5.030)
6.2	Derivative financial instruments gains/losses		48.739	(54.430)
6.3	Foreign exchange gains/losses (net)		(25.248)	39.435
VII.	**OTHER OPERATING INCOME**	(5)	**32.260**	**52.881**
VIII.	**TOTAL OPERATING INCOME (III+IV+V+VI+VII)**		**515.947**	**426.452**
IX.	**PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)**	(6)	**(34.595)**	**(32.234)**
X.	**OTHER OPERATING EXPENSES (-)**	(7)	**(100.218)**	**(93.246)**
XI.	**NET OPERATING INCOME/(LOSS) (VIII-IX-X)**		**381.134**	**300.972**
XII.	**AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER**		-	-
XIII.	**PROFIT / (LOSS) ON EQUITY METHOD**		**20.271**	**20.917**
XIV.	**GAIN / (LOSS) ON NET MONETARY POSITION**		-	-
XV.	**PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XI+XII+XIII+XIV)**	(8)	**401.405**	**321.889**
XVI.	**TAX PROVISION FOR CONTINUED OPERATIONS (±)**	(9)	**(76.254)**	**(63.269)**
16.1	Provision for current income taxes		(94.286)	(51.040)
16.2	Provision for deferred taxes		18.032	(12.229)
XVII.	**NET PROFIT/(LOSS) FROM CONTINUED OPERATIONS (XV±XVI)**	(10)	**325.151**	**258.620**
XVIII.	**INCOME ON DISCONTINUED OPERATIONS**		-	-
18.1	Income on assets held for sale		-	-
18.2	Income on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
18.3	Income on other discontinued operations		-	-
XIX.	**LOSS FROM DISCONTINUED OPERATIONS (-)**		-	-
19.1	Loss from assets held for sale		-	-
19.2	Loss on sale of associates, subsidiaries and jointly controlled entities (Joint vent.)		-	-
19.3	Loss from other discontinued operations		-	-
XX.	**PROFIT / (LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XVIII-XIX)**		-	-
XXI.	**TAX PROVISION FOR DISCONTINUED OPERATIONS(±)**		-	-
21.1	Provision for current income taxes		-	-
21.2	Provision for deferred taxes		-	-
XXII.	**NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XX±XXI)**		-	-
XXIII.	**NET PROFIT/LOSS (XVII+XXII)**	(11)	**325.151**	**258.620**
23.1	Group's profit / loss		317.010	260.763
23.2	Minority shares		8.141	(2.143)
	Earnings / (losses) per share		0,296	0,235

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

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

	PROFIT AND LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDER'S EQUITY	**Audited Current Period 1 January 2012– 31 December 2012**	**Audited Prior Period 1 January 2011 – 31 December 2011**
I.	**ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS**	**144.877**	**(59.347)**
II.	**TANGIBLE ASSETS REVALUATION DIFFERENCES**	-	-
III.	**INTANGIBLE ASSETS REVALUATION DIFFERENCES**	-	-
IV.	**TRANSLATION DIFFERENCES FOR TRANSACTIONS IN FOREIGN CURRENCIES**	-	-
V.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR CASH FLOW HEDGES (effective portion of fair value differences)**	-	-
VI.	**GAIN/LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS (effective portion)**	-	-
VII.	**EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS**	-	-
VIII.	**OTHER PROFIT/LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS' EQUITY AS PER TAS**	**(230)**	**(3.059)**
IX.	**DEFERRED TAX OF VALUATION DIFFERENCES**	**(28.053)**	**10.547**
X.	**NET PROFIT/LOSS ACCOUNTED FOR DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)**	**116.594**	**(51.859)**
XI.	**CURRENT YEAR PROFIT/LOSS**	**325.151**	**258.620**
11.1	Net changes in fair value of securities (Recycled to Profit/Loss)	(756)	(1.770)
11.2	Reclassification of and recycling derivatives accounted for cash flow hedge purposes to Income Statement	-	-
11.3	Recycling hedge of net investments in foreign operations to Income Statement	-	-
11.4	Other	325.907	260.390
XII.	**TOTAL PROFIT/LOSS ACCOUNTED FOR THE CURRENT PERIOD (X±XI)**	**441.745**	**206.761**

TÜRKİYE SINAI KALKINMA BANKASI A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

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

	CHANGES IN SHAREHOLDER'S EQUITY	Note Ref.	Paid in Capital	Effect of Inflation on Paid in Capital	Share Premiums	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit / Loss	Prior Period Net Profit / Loss	Marketable Securities Value Increase Fund	Tangible and Intangible Assets Revaluation Differences	Bonus Shares Obtained from Associates, Subs and Jointly Controlled Entities	Hedging Reserves	Revaluation Surplus on Assets Held for sale and on Disc. Operations	Shareholders' Equity Before Non-controlling Interest	Non-Controlling Interest	Total Shareholders' Equity
	Prior Period – 31 December 2011																			
I.	**Opening Balance**		**700.000**	**374**	**413**	-	**75.558**	**36.929**	**118.439**	**2.920**	-	**263.779**	**69.019**	**31.174**	-	-	-	**1.298.605**	**99.916**	**1.398.521**
	Changes during the period																			
II.	**Increase / Decrease related to merger**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**Marketable securities value increase fund**		-	-	-	-	-	-	-	-	-	-	**(51.859)**	-	-	-	-	**(51.859)**	-	**(51.859)**
IV.	**Hedging (Effective portion)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1	Cash-flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedge of net investment in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Tangible assets revaluation differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	**Intangible assets revaluation differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	**Foreign exchange differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Disposal of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Reclassification of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Effect of change in equities of associates on bank's equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Capital increase**		**100.000**	-	-	-	-	-	-	-	-	**(100.000)**	-	-	-	-	-	-	-	-
12.1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
12.2	Internal sources		100.000	-	-	-	-	-	-	-	-	(100.000)	-	-	-	-	-	-	-	-
XIII.	**Share issuance**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	**Effect of inflation on paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Other**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	**Period net income**		-	-	-	-	-	-	-	-	**260.763**	-	-	-	-	-	-	**260.763**	**(2.143)**	**258.620**
XVIII.	**Profit distribution**		-	-	-	-	**22.417**	**10.581**	**33.728**	-	-	**(113.925)**	-	-	-	-	-	**(47.199)**	**(982)**	**(48.181)**
18.1	Dividends distributed		-	-	-	-	-	-	-	-	-	(47.199)	-	-	-	-	-	(47.199)	(982)	(48.181)
18.2	Transfers to reserves		-	-	-	-	22.417	10.581	33.728	-	-	(66.726)	-	-	-	-	-	-	-	-
18.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Closing Balance		**800.000**	**374**	**413**	-	**97.975**	**47.510**	**152.167**	**2.920**	**260.763**	**49.854**	**17.160**	**31.174**	-	-	-	**1.460.310**	**96.791**	**1.557.101**
	Current Period – 31 December 2012																			
I.	**Opening Balance**		**800.000**	**374**	**413**	-	**97.975**	**47.510**	**152.167**	**2.920**	-	**310.617**	**17.160**	**31.174**	-	-	-	**1.460.310**	**96.791**	**1.557.101**
	Changes during the period																			
II.	**Increase / Decrease related to merger**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	**Marketable securities value increase fund**		-	-	-	-	-	-	-	-	-	-	**116.594**	-	-	-	-	**116.594**	**15**	**116.609**
IV.	**Hedging (Effective portion)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1	Cash-flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Hedge of net investment in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	**Tangible assets revaluation differences**		-	-	-	-	-	-	-	-	-	**(3.983)**	-	**3.983**	-	-	-	-	-	-
VI.	**Intangible assets revaluation differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	**Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	**Foreign exchange differences**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	**Disposal of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	**Reclassification of assets**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	**Effect of change in equities of associates on bank's equity**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	**Capital increase**	(1)	**300.000**	-	-	-	-	-	**(163.000)**	-	-	**(137.000)**	-	-	-	-	-	-	-	-
12.1	Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
12.2	Internal sources		300.000	-	-	-	-	-	(163.000)	-	-	(137.000)	-	-	-	-	-	-	-	-
XIII.	**Share issuance**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	**Share cancellation profits**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	**Effect of inflation on paid-in capital**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	**Other**		-	-	**(25)**	-	**(859)**	-	**(5.221)**	-	-	**(2.601)**	-	-	-	-	-	**(8.706)**	**(20.674)**	**(29.380)**
XVII.	**Period net income**		-	-	-	-	-	-	-	-	**317.010**	-	-	-	-	-	-	**317.010**	**8.141**	**325.151**
XVIII.	**Profit distribution**		-	-	-	-	**27.936**	**12.767**	**23.598**	-	-	**(114.780)**	-	-	-	-	-	**(50.479)**	-	**(50.479)**
18.1	Dividends distributed		-	-	-	-	-	-	-	-	-	(50.479)	-	-	-	-	-	(50.479)	-	(50.479)
18.2	Transfers to reserves		-	-	-	-	27.936	12.767	23.598	-	-	(64.301)	-	-	-	-	-	-	-	-
18.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Closing Balance		**1.100.000**	**374**	**388**	-	**125.052**	**60.277**	**7.544**	**2.920**	**317.010**	**52.253**	**133.754**	**35.157**	-	-	-	**1.834.729**	**84.273**	**1.919.002**

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

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

		Notes	Audited Current Period 31 December 2012	Audited Prior Period 31 December 2011
A.	**CASH FLOWS FROM BANKING OPERATIONS**			
1.1	**Operating profit before changes in operating assets and liabilities**		**215.487**	**410.008**
1.1.1	Interest received		492.247	563.090
1.1.2	Interest paid		(191.485)	(175.115)
1.1.3	Dividends received		6.014	4.487
1.1.4	Fees and commissions received		29.842	30.350
1.1.5	Other income	(1)	85.850	75.511
1.1.6	Collections from previously written off loans		7.806	6.990
1.1.7	Payments to personnel and service suppliers		(75.962)	(69.558)
1.1.8	Taxes paid		(78.649)	(50.461)
1.1.9	Others	(1)	(60.176)	24.714
1.2	**Changes in operating assets and liabilities**		**(18.665)**	**(189.544)**
1.2.1	Net (increase) decrease in financial assets		52.696	9.397
1.2.2	Net (increase) decrease in financial assets at fair value through profit or loss		-	-
1.2.3	Net (increase) decrease in due from banks and other financial institutions		-	-
1.2.4	Net (increase) decrease in loans		(1.012.416)	(1.840.478)
1.2.5	Net (increase) decrease in other assets	(1)	116.869	(53.518)
1.2.6	Net increase (decrease) in bank deposits		-	-
1.2.7	Net increase (decrease) in other deposits		-	-
1.2.8	Net increase (decrease) in funds borrowed		723.160	1.804.649
1.2.9	Net increase (decrease) in matured payables		-	-
1.2.10	Net increase (decrease) in other liabilities	(1)	101.026	(109.594)
I.	**Net cash provided by/(used in) banking operations**		**196.822**	**220.464**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
II.	**Net cash provided by/(used in) investing activities**		**(211.971)**	**(21.876)**
2.1	Cash paid for purchase of entities under common control, associates and subsidiaries	(2)	(420)	(1.040)
2.2	Cash obtained from sale of entities under common control, associates and subsidiaries	(3)	-	392
2.3	Fixed asset purchases	(2)	(13.613)	(6.384)
2.4	Fixed asset sales	(3)	3.865	17.995
2.5	Cash paid for purchase of financial assets available for sale		(297.030)	(215.408)
2.6	Cash obtained from sale of financial assets available for sale		-	-
2.7	Cash paid for purchase of investment securities		-	-
2.8	Cash obtained from sale of investment securities (*)		95.787	182.973
2.9	Others		(560)	(404)
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
III.	**Net cash provided by/(used in) financing activities**		**(50.481)**	**(238.925)**
3.1	Cash obtained from funds borrowed and securities issued		-	-
3.2	Cash used for repayment of funds borrowed and securities issued		(2)	(190.744)
3.3	Capital increase		-	-
3.4	Dividends paid		(50.479)	(48.181)
3.5	Payments for finance leases		-	-
3.6	Other		-	-
IV.	**Effect of change in foreign exchange rate on cash and cash equivalents**	(1)	**(2.400)**	**10.380**
V.	**Net increase / (decrease) in cash and cash equivalents**		**(68.030)**	**(29.957)**
VI.	**Cash and cash equivalents at beginning of the period**	(4)	**534.689**	**564.646**
VII.	**Cash and cash equivalents at end of the period**	(4)	**466.659**	**534.689**

(*) Current period amount comprises of the Parent Bank's held to maturity investment that was redeemed on 15 February 2012.

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

		Audited Current Period 31 December 2012 (*)	**Audited Current Period 31 December 2011**
I.	**DISTRIBUTION OF CURRENT YEAR INCOME (**)**		
1.1	CURRENT YEAR INCOME	**382.793**	**317.715**
1.2	TAXES AND DUTIES PAYABLE	(75.529)	(62.373)
1.2.1	Corporate Tax (Income tax)	(94.286)	(49.194)
1.2.2	Income withholding tax	-	-
1.2.3	Other taxes and duties	18.757	(13.179)
A.	**NET INCOME FOR THE YEAR (1.1-1.2)**	**307.264**	**255.342**
1.3	PRIOR YEARS LOSSES (-)(*)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	12.767
1.5	OTHER STATUTORY RESERVES (-)	-	12.767
B.	**NET PROFIT AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]**	**307.264**	**229.808**
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	48.000
1.6.1	To owners of ordinary shares	-	48.000
1.6.2	To owners of preferred shares	-	-
1.6.3	To owners of preferred shares (pre-emptive rights)	-	-
1.6.4	To profit sharing bonds	-	-
1.6.5	To holders of profit and loss sharing certificates	-	-
1.7	DIVIDENDS TO PERSONNEL (-)	-	4.590
1.8	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	889
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	134.000
1.9.1	To owners of ordinary shares	-	134.000
1.9.2	To owners of preferred shares	-	-
1.9.3	To owners of preferred shares (pre-emptive rights)	-	-
1.9.4	To profit sharing bonds	-	-
1.9.5	To holders of profit and loss sharing certificates	-	-
1.10	SECOND LEGAL RESERVES (-)	-	14.748
1.11	STATUTORY RESERVES (-)	-	-
1.12	GENERAL RESERVES	-	23.598
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	3.983
II.	**DISTRIBUTION OF RESERVES**		
2.1	APPROPRIATED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1	To owners of ordinary shares	-	-
2.3.2	To owners of preferred shares	-	-
2.3.3	To owners of preferred shares (pre-emptive rights)	-	-
2.3.4	To profit sharing bonds	-	-
2.3.5	To holders of profit and loss sharing certificates	-	-
2.4	DIVIDENDS TO PERSONNEL (-)	-	-
2.5	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
III.	**EARNINGS PER SHARE**		
3.1	TO OWNERS OF ORDINARY SHARES	**307.264**	**255.342**
3.2	TO OWNERS OF ORDINARY SHARES (%)	27,93	31,92
3.3	TO OWNERS OF PRIVILEGED SHARES	-	-
3.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-
IV.	**DIVIDEND PER SHARE**		
4.1	TO OWNERS OF ORDINARY SHARES	-	182.000
4.2	TO OWNERS OF ORDINARY SHARES (%)	-	22,75
4.3	TO OWNERS OF PRIVILAGED SHARES	-	-
4.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(*) Since the Board of Directors has not yet prepared any proposal for profit distribution relating to the year 2012, profit distribution for the year 2012 was presented only.

(**) According to legislation, companies in Turkey do not make consolidated profit distribution. In this context, profit distribution is based on unconsolidated financial statements.

SECTION THREE

ACCOUNTING POLICIES

I. Basis of presentation

I.a Presentation of consolidated financial statements and notes to the consolidated financial statements according to Turkish Accounting Standards and Banking Accounting Regulations and Safeguarding of Documents

As prescribed in the Articles 37 of the Banking Act No. 5411, banks shall, in line with the principles and procedures to be established by the Banking Regulation and Supervision Agency ("BRSA") upon consulting the associations of financial institutions and the Turkish Accounting Standards Board taking into consideration international standards, ensure uniformity in their accounting systems; correctly record all their transactions; and timely and accurately prepare their financial reports in a style and format that will meet disclosure requirements, clearly reliable and comparable, and suitable for auditing, analysis and interpretation.

The Parent Bank prepares its financial statements and underlying documents in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" and Turkish Accounting Standards, Turkish Financial Reporting Standards promulgated by Turkish Accounting Standards Board ("TASB") and other regulations, explanations and circulars on accounting and financial reporting principles announced by the BRSA.

Per decree No 660 published in the Official Gazette dated 2 November 2011 and became effective, additional article No:1 of the 2499 numbered Law on establishment of TASB has been abrogated and establishment of Public Oversight, Accounting and Auditing Standards Association ("the Board") has been decided by the Council of Ministers. In accordance with this additional temporary article no 1 of the decree, current regulations will prevail until related standards and regulations will be issued by the Board become effective. The situation does not result in a change in basis of preparation as of reporting date.

Amounts in the consolidated financial statements, the underlying explanations and disclosures are expressed in Thousands of Turkish Lira unless otherwise stated.

Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position and consolidated results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

I.b The valuation principles used in the preparation of the financial statements

The accounting rules and the valuation principles used in the preparation of the financial statements were implemented as stated in the Turkish Accounting Standards, Turkish Financials Reporting Standards and related regulations, explanations and circulars on accounting and financial reporting principles announced by the BRSA. These accounting policies and valuation principles are explained in the below notes through II to XXIII.

I.c The accounting policies for the correct understanding of the financial statements

The following accounting policies that applied according to BRSA regulations and TAS for the correct understanding of the financial statements and valuation principles used in preparation of the financial statements are presented in more detail below.

I.d In preparing the consolidated financial statements, items which different accounting policies adopted and their ratio on total of related consolidated financial statement

There is no different accounting policy used in consolidated financial statements.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

II. Explanations on usage strategy of financial assets and foreign currency transactions

The main sources of the funds of the Group have variable interest rates. The financial balances are monitored frequently and constant and variable interest rate placements are undertaken according to the return on the alternative financial instruments. The macro goals related to balance sheet amounts are set during budgeting process and positions are taken accordingly.

Due to the fact that the great majority of the loans extended by the Parent Bank have the flexibility of reflecting the changes in market interest rates to customers, the interest rate risk is kept at minimum level. Moreover, the highly profitable Eurobond and the foreign currency government indebtness securities portfolio have the attribute of eliminating the risks of interest rate volatility.

The Group liquidity is regularly monitored. Moreover, the need of liquidity in foreign currencies is safeguarded by currency swaps.

Commercial placements are managed with high return and low risk assets considering the international and domestic economic expectations, market conditions, creditors' expectations and their tendencies, interest-liquidity and other similar factors. Prudence principle is adopted in the placement decisions. The long term placements are made under project finance. A credit policy is implemented such a way that harmonizing the profitability of the projects, the collateral and the value add introduced by the Parent Bank.

The movements of foreign exchange rates in the market, interest rates and prices are monitored instantaneously. When taking positions, the Parent Bank's unique operating and control limits are watched effectively besides statutory limits. Limit overs are not allowed.

The Group's strategy of hedging interest rate and foreign currency risks arising from fixed and variable interest rate funds and foreign currency available for sale securities:

A great majority of foreign currency available for sale securities are financed with foreign currency resources. Accordingly, the expected depreciation of local currency against other currencies is eliminated. A foreign currency basket is formulated in terms of the indicated foreign currency to eliminate the risk exposure of cross currency rates.

To mitigate the interest rate risk, a balanced asset composition is established in compliance with the structure of fixed and variable rate funding resources.

The hedging strategies for other foreign exchange risk exposures:

A stable foreign exchange position strategy is implemented: To be secured from cross currency risk, the current foreign exchange position is taken by considering a specific basket of foreign currencies.

The foreign exchange gains and losses on foreign currency transactions are accounted for in the period of the transaction. Foreign exchange assets and liabilities are translated to Turkish Lira using foreign exchange bid rate as of the reporting date, and the resulting gains and losses are recorded in foreign exchange gains or losses.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

III. Information about the Parent Bank and its subsidiaries and associates subject to consolidation

TSKB A.Ş. and its financial institutions, Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Yatırım Ortaklığı A.Ş., TSKB Yatırım Ortaklığı A.Ş. are included in the accompanying consolidated financial statements by line by line consolidation method; İş Finansal Kiralama A.Ş., İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. and İş Factoring Finansman Hizmetleri A.Ş. are included in the accompanying consolidated financial statements by equity method Financial institutions included in the consolidation are determined in accordance with "Communiqué on Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 8 November 2006 numbered 26340. The Parent Bank and the entities included in the consolidation are referred to as "the Group" in this report.

The financial statements of the subsidiaries and associates, which were prepared in accordance with the prevailing principles and rules regarding financial accounting and reporting standards in the Turkish Commercial Code and/or Financial Leasing Law and/or communiqués of the Capital Markets Board of Turkey ("CMB"), are duly adjusted in order to present their financial statements in accordance with Turkish Accounting Standards and Turkish Financial Reporting Standards.

When there are differences between the accounting policies of the subsidiaries and the Parent Bank, the financial statements are adjusted in accordance with the principle of materiality. The financial statements of the subsidiaries are prepared as of 31 December 2012.

The transactions and balances between the consolidated entities and the Parent Bank are eliminated.

TSKB Yatırım Ortaklığı A.Ş.

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

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

III. Information about the Parent Bank and its subsidiaries and associates subject to consolidation (continued)

Yatırım Finansman Menkul Değerler A.Ş. :

Yatırım Finansman Menkul Değerler A.Ş. was established with the title of Yatırım Finansman A.Ş. and registered in Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. Title of the Company was changed into Yatırım Finansman Menkul Değerler A.Ş. by the announcement made in the Turkish Trade Registry Gazette No: 4762 on 2 April 1999. The Company's purpose is to perform capital market operations specified in the Company's main contract in accordance with the Capital Market Law and the related legislation. The Company was merged with TSKB Menkul Değerler A.Ş. on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. :

Core business of TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. is real estate trust to construct and develop a portfolio of properties and make investment to capital market instruments linked to properties. The Company was established on 3 February 2006.

İş Finansal Kiralama A.Ş. :

İş Finansal Kiralama A.Ş. 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 1988. The Company's headquarters is located at Istanbul/Türkiye.

İş Factoring Finansman Hizmetleri A.Ş. :

İş Factoring Finansman Hizmetleri A.Ş., was incorporated in Turkey on 4 July 1993 and it has been performing 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. The Company is a Türkiye İş Bankası A.Ş. Group entity and the parent is İş Finansal Kiralama A.Ş with 78,23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası A.Ş. is 21,75%.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. :

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

IV. Explanations on forward and option contracts and derivative instruments

The Parent Bank is exposed to financial risk which depend on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate.

Mainly derivative instruments used by the Group are foreign currency forwards, swaps, futures trading, futures and option agreements.

The derivative instruments are accounted for at their fair values as of the date of the agreements entered into and subsequently valued at fair value. Some of the derivative instruments, although economic hedges, are accounted for as trading transactions since they are not qualified to be hedging instruments as per "Financial Instruments: Recognition and Measurement" ("TAS 39"). Realized gains or losses are reflected in the income statement on these derivative instruments.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

IV. Explanations on forward and option contracts and derivative instruments (continued)

According to Capital Markets Board legislation, Intermediary Institution warrants are capital market instruments that give the holder the right, but not the obligation, to buy or to sell an underlying asset at a specified price on or before a predetermined date where such right is exercised by registered deliver or cash settlement and these warrants are called securitized derivative transactions. In this context, the Bank that issued warrants on foreign currencies, has accounted the costs of issued warrant on liabilities. Warrants are valued on a daily basis over the market value created by the market maker and valuation differences are recorded in the income statement. On withdrawal of the issued warrants, the balance is netted-off with the cost on the liabilities and gain/losses are associated with the income statement. On the other hand, issued warrant is recorded on the statement of off-balance sheet with its nominal value.

V. Explanations on interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method (the rate that equalizes the future cash flows of financial assets and liabilities to the current net book value).

In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

VI. Explanations on fees and commission income and expenses

Fees and commissions received from cash loans, that are not an integral part of the effective interest rate, and fees for various banking services are recorded as income when collected. Fees and commissions paid for the funds borrowed, which are not integral parts of the effective interest rate of the funds borrowed, are recorded as expense on the date of the payment. All other income and expenses, fee and commission income and expenses, including commissions received from non-cash loans are recorded on an accrual basis.

VII. Explanations on financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments constitute the both of the Group’s trading activities and operations. Risks related with these instruments constitutes majority of total risks. Financial instruments affect liquidity, market, and credit risks on the Group’s balance sheet in all respects. The Group trades these instruments on behalf of its customers and on its own behalf.

Basically, financial assets create the majority of the commercial activities and operations of the Group. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Settlement date accounting requires (a) accounting of the asset when acquired by the institution, and (b) disposing of the asset out of the balance sheet on the date settled by the institution; and accounting of gain or loss on disposal.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

In case of application of settlement date accounting, the entity accounts for the changes that occur in the fair value of the asset in the period between commercial transaction date and settlement date as in the assets that the entity settles.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets.

Fair value differences are not accounted for assets presented at cost or amortized cost; gain or loss of financial assets at fair value through profit and loss are reflected in the income statement, gain or loss of available for sale assets are accounted for under the shareholders' equity.

The methods and assumptions used in determining the reasonable estimated values of all of the financial instruments are explained below.

Cash, Banks and Other Financial Institutions:

Cash and cash equivalents comprise cash on hand, demand deposits, and highly liquid short-term investments with maturity of 3 months or less following the purchase date, not bearing risk of significant value change, and that are readily convertible to a known amount of cash. The book values of these assets approximate their fair values.

Marketable Securities:

The Group classifies its marketable securities in three groups:

Financial assets at fair value through profit and loss: These transactions are classified in two categories. (i) Trading securities for the purposes of short term profit taking through sale or buying back in a near future. (ii) The financial assets classified at inception as financial assets at fair value through profit or loss by the Group. The Group uses such classification above when permitted or for the purposes of providing a more proper disclosure.

In this category, trading securities are initially recognized at cost and measured at fair value on the financial statements. Fair values of securities that are traded in an active market are determined based on quoted prices or current market prices.

Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. As per the explanations of the Uniform Code of Accounts (UCA), any positive difference between the historical cost and amortized cost of financial assets are booked under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is booked under the "Gains on Securities Trading" account. If the fair value is under the amortized cost, the negative difference is booked under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

Available for sale financial assets are initially recognized at cost including the transaction costs. The interest income related to securities with fixed and variable interest under available for sale financial assets are recorded in interest income. After the initial recognition, available for sale securities are measured at fair value and the unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in “Marketable Securities Value Increase Fund” under the equity. All unquoted available for sale stocks are recorded by considering impairment, since respective fair values cannot be reliably measured. At the disposal of available for sale financial assets, value increases/decreases that are recorded in the securities value increase fund under equity are transferred to income statement.

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding till maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any.

Interest income earned from held-to-maturity investments is recognized as interest income on income statement. The group has no held to maturity investments as of 31 December 2012 (31 December 2011: TL 126.955)

As of the reporting date, the Group has begun to calculate internal rate of return of the CPI indexed marketable securities considering expected inflation index of future cash flows. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements.

Explanations on investments in associates and subsidiaries:

Investments in associates and subsidiaries are recorded within the scope of the “Turkish Accounting Standard No.39: Financial Instruments: Recognition and Measurement” (TAS 39). Investments in subsidiaries, whose shares are traded in an active market (stock market), are shown in the financial statements with their fair values by taking into account their prices recorded in the related market (stock market). Investments in subsidiaries and associates, whose shares are not traded in an active market (stock market) are followed at their cost of acquisition and these assets are shown in the financial statements with their cost values after the deduction of, if any, impairment provisions.

Loans:

Loans are financial assets which have fixed payment terms and are not traded.

Loans are initially recognized at cost and measured at amortized cost by using effective interest rate. The duties, charges and other expenses paid for the collaterals obtained against loans are accepted as transaction costs and reflected to customers.

Turkish Lira (“TL”) cash loans are composed of foreign currency indexed loans, loans for marketable securities purchased by customers, and working capital loans; foreign currency (“FC”) cash loans are composed of investment loans, export financing loans and working capital loans.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VII. Explanations on financial assets (continued)

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

Provision is set for the loans that may be doubtful and the amount is charged in the current period income statement as well as their classification to non-performing loans as per the related regulations. The collections made related to loans including those on non-performing loans for which provision is made in the current period are recorded in "Provision for Loans and Other Receivables (including received from Loans and receivables with doubtful collectability) " and "Interest Received from Non-performing Loans" account.

Releases of loan loss provisions are recorded by reversing the provisions booked during the year and the collections made related to loan losses previously accounted for are recorded to collections related to the prior period expenses.

VIII. Explanations on impairment on financial assets

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

A financial asset or a financial asset group incurs impairment loss only if there is an objective evidence related to the occurrence of one or more than one event ("loss event") after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses for future events are not recognized.

Loans are classified and followed in line with the provisions of the "Regulation on Identification of Loans and Other Receivables and Provisioning against Them", published on the Official Gazette No: 26333 dated 1 November 2006. Specific provision is allocated for the total amount of loans and other receivables, which is deemed non-performing, without being restricted by the minimum legal requirements stated in the related regulation, and such specific provisions are recognized in the income statement. The provisions, which are released within the same year, are credited to the "Provision Expenses" account and the released parts of the provisions from the previous years are transferred to and recognized in the "Other Operating Income" account.

Other than specific provisions, the Bank provides "general provision" for loans and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables.

Subsequent to the change in the regulation on "Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" published in the Official Gazette No. 27947 dated 28 May 2011; in case of the extension of the payment plan of the loans which are followed under loans and receivables, the general loan loss provision ratio for standard and for the first group loans and receivables should not be less than 5 times of the general provision ratio and for the second group loans and receivables should not be less than 2,5 times of the general provision ratio

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

VIII. Explanations on impairment on financial assets (continued)

As a consequence of the regulation published in Official Gazette No. 27968 dated 18 June 2011 amending the "Change in the Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves", for the banks, of which the consumer loans exceed twenty percent of total loans, general loan loss provision ratio is four percent for consumer loans which are followed under standard loans and receivables except car and housing loans; and is eight percent for the loans under close monitoring except car and housing loans. Since the consumer loans of the Parent Bank are composed of personnel loans as of 31 December 2012 and do not exceed the ratios mentioned above, additional general loan loss provision has not been calculated.

In accordance with the communiqué "The Amendment to the Communiqué on Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" published on 21 September 2012 No: 28418 Official Gazette, the Parent Bank has calculated general loan loss provisions with the rates stated in the first paragraph of Article 7 of the Communiqué.

IX. Explanations on offsetting of financial assets and liabilities

Financial assets and liabilities are offset when the Group has a legally enforceable right to set off, and when the Group has the intention of collecting or paying the net amount of related assets and liabilities or when the Group has the right to offset the assets and liabilities simultaneously. Otherwise, there is not any offsetting transaction about financial assets and liabilities.

X. Explanations on sales and repurchase agreements and lending of securities

Funds provided under repurchase agreements are accounted under "Funds Provided under Repurchase Agreements-TL" and "Funds Provided under Repurchase Agreements-FC" accounts.

The repurchase agreements of the Group are based on the short-term Eurobonds issued by Republic of Turkey Undersecretariat of Treasury and government bonds. In the financial statements, the government bonds and treasury bills sold to customers under repurchase agreements are classified under securities held for trading, available for sale and held to maturity depending on the portfolio they are originally included in and are valued according to the valuation principles of the related portfolios. The income and expenses from these transactions are reflected to the interest income and interest expense accounts in the income statement. Receivables from reverse repurchase agreements are recorded in "Receivables from Reverse Repurchase Agreements" account in the balance sheet.

XI. Explanations on assets held for sale and discontinued operations

Assets held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell. Held for sale assets are not amortized and presented separately in the financial statements. In order to classify an asset as held for sale, only when the sale is highly probable, experienced quite often and the asset (or disposal group) is available for immediate sale in its present condition. Assets held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XI. Explanations on assets held for sale and discontinued operations (continued)

Held for sale assets are not amortized and presented separately in the financial statements. In order to classify an asset as held for sale, only when the sale is highly probable, experienced quite often and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale. Highly saleable condition requires a plan by the management regarding the sale of the asset to be disposed (or else the group of assets), together with an active program for determination of buyers as well as for the completion of the plan. Also the asset (or else the group of assets) shall be actively marketed in conformity with its fair value. On the other hand, the sale is expected to be journalized as a completed sale within one year after the classification date; and the necessary transactions and procedures to complete the plan should demonstrate the fact that the possibility of making significant changes or cancelling the plan is low. Various circumstances and conditions could extend the completion period of the sale more than one year. If such delay arises from any events and conditions beyond the control of the entity and if there is sufficient evidence that the entity has an ongoing disposal plan for these assets, such assets (or else group of assets) are continued to be classified as assets held for sale (or else group of assets).

A discontinued operation is a division that is either disposed or held for sale. Results of discontinued operations are included separately in the income statement.

XII. Explanations on goodwill and other intangible assets

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity 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.

Intangible assets that are acquired prior to 1 January 2005 are carried at restated historical cost as of 31 December 2004; and those acquired subsequently are carried at cost less accumulated amortization, and any impairment. Intangible assets are depreciated over their expected useful lives. Depreciation method and period are reviewed periodically at the end of each year. Intangible assets are mainly composed of rights and they are depreciated principally on a straight-line basis between 1-15 years.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XIII. Explanations on tangible assets

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

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

Normal maintenance and repair expenditures are expensed.

There is no pledge, mortgage or any other lien on tangible assets.

Tangible assets are depreciated with straight-line method and their useful lives are determined in accordance with the Turkish Accounting Standards

Depreciation rates and estimated useful lives of tangible assets are as follows.

Tangible Assets	Expected Useful Lives (Years)	Depreciation Rate (%)
Cashboxes	4-50	2-25
Vehicles	5	20
Other Tangible Assets	1-50	2-100

Investment Property

Operating investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognized when it is probable that the future economic benefits that are associated with them will flow to the Group and the cost of them can be measured reliably. Fair value model was chosen in the measurement of the investment properties. Gains and losses arising from changes in the fair values of investment properties are recognized in profit or loss for the period in which it arises.

XIV. Explanations on leasing transactions

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. The lease payments are allocated as principle and interest. 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.

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 balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss in accordance with the Group’s general policy on borrowing costs. Tangible assets acquired by financial leases are amortized based on the useful lives of the assets.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XV. Explanations on provisions and contingent liabilities

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If aforesaid criterias did not compose, the Parent Bank has disclosed mentioned issues in note to financial statements. Provisions are determined by using the Group's best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

Explanations on contingent assets

Contingent assets consist of unplanned or other unexpected events that usually cause a possible inflow of economic benefits to the Parent Bank. Since recognition of the contingent assets in the financial statements would result in the accounting of an income, which maynever be generated, the related assets are not included in the financial statements; on the other hand, if the inflow of the economic benefits of these assets to the Parent Bank is probable, an explanation is made thereon in the footnotes of the financial statements. Nevertheless, the developments related to the contingent assets are constantly evaluated and in case the inflow of the economic benefit to the Parent Bank is almost certain, the related asset and the respective income are recognised in the financial statements of the period in which the change occurred.

XVI. Explanations on liabilities regarding employee benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. In retirement and involuntarily leaving, the Group records the present value of the defined benefit obligation.

There is no indemnity obligations related to the employees who are employed with contract of limited duration exceeding 12 month period.

Employees of the Parent Bank are members of "Türkiye Sınai Kalkınma Bankası Anonim Şirketi Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Pension Fund"). Technical financial statements of those funds are subject to audit in accordance with the Insurance Law and provisions of "Regulations on Actuaries" issued based on the related law by an actuary registered in the Actuarial Registry.

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.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVI. Explanations on liabilities regarding employee benefits (continued)

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

Present value for the liabilities of the transferees as 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.

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 2012 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated February 2013. There is no need for technical or actual deficit to book provision as of 31 December 2012.

In addition, the Parent 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 Parent Bank.

XVII. Explanations on taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. Liability for current tax is calculated using tax rates that have been enacted by the reporting date.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XVII. Explanations on taxation (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

According to the second paragraph of the Article 53 of the Banking Act No 5411 dated 19 October 2005, all specific reserves for loans and other receivables are considered as deductible expense for determining corporate tax base.

Banks in Bahrain are not subject to tax according to the regulations of that country.

Transfer pricing

Transfer pricing is regulated through article 13 of Corporate Tax Law titled “Transfer Pricing through camouflage of earnings”. Detailed information for the practice regarding the subject is found in the “General Communiqué Regarding Camouflage of Earnings Through Transfer Pricing”. According to the aforementioned regulations, in the case of making purchase or sales of goods or services with relevant persons/corporations at a price that is determined against “arm’s length principle”, the gain is considered to be distributed implicitly through transfer pricing and such distribution of gains is not subject to deductions in means of corporate tax.

XVIII. Additional explanations on borrowings

Borrowings are recognized at initial cost on transaction date and carried at amortized cost using effective interest method. In the accompanying financial statements, foreign currency debt instruments are valued using foreign exchange rates of the Parent Bank as of the period end and interest expense amounts of related period arising from borrowings are reflected in the financial statements.

All other borrowing costs are recorded to the income statement at the period they are incurred.

XIX. Explanations on share certificates issued

In the meeting of the General Assembly held on 26 March 2012; it has been resolved that, paid-in capital of the Parent 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 form extraordinary reserves. The increase in paid-in capital has approved by the BRSA on 10 May 2012, has registered on 6 June 2012 and has been published in the Turkish Trade Registry Gazette No: 8088 on 12 June 2012.

In the prior period, In the meeting of the General Assembly held on 25 March 2011; it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 700.000 to TL 800.000 by TL 100.000. In respect of the resolution of the General Assembly, TL 100.000 of this increase will be incorporated from the profit of the year 2010. The increase in paid-in capital was approved by the BRSA on 15 April 201, has registered on 12 May 2011 and has been published in the Turkish Trade Registry Gazette No: 7824 on 27 May 2011.

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XX. Explanations on acceptances

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

XXI. Explanations on government incentives

The Parent Bank does not use government incentives.

XXII. Explanations on segment reporting

In accordance with its mission, the Parent Bank mainly operates in investment and corporate banking segments.

Corporate Marketing Management operations are included in the corporate banking. The corporate banking is serving financial solutions and banking services for its large-scale corporate customers. Among the services given to corporate customers are; TL and foreign exchange operating loans, investment credits, project financing, letters of credit and letters of guarantees.

The activities of investment banking are; the operations of Treasury, Corporate Finance, Research, Financial Institutions and Marketable Securities and Portfolio Management departments. Under the investment banking activities, portfolio management for corporate and individual customers, marketable securities intermediary activities, cash flow management and all types of corporate finance services is provided.

Information about consolidated associates and subsidiaries for segment reporting is shown as “Other”.

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

SECTION THREE (Continued)

ACCOUNTING POLICIES (Continued)

XXII. Explanations on segment reporting (continued)

The segmental allocation of the Group's net profit, total assets and total liabilities are shown below.

Current Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	242.277	188.244	(5.677)	424.844
Net Fees and Commission Income	10.185	1.751	14.584	26.520
Other Income	7.010	10.375	72.197	89.582
Other Expense	(58.668)	(23.464)	(57.409)	(139.541)
Profit Before Tax	200.804	176.906	23.695	401.405
Tax Provision				(76.254)
Net Profit				**325.151**
Group's profit / loss				**317.010**
Non-controlling interest				**8.141**
Current Period	**Corporate Banking**	**Investment Banking**	**Other**	**Total**
Segment Assets	6.823.651	3.496.371	324.867	10.644.889
Investment in Associates and Subsidiaries	-	-	212.429	212.429
Total Assets	**6.823.651**	**3.496.371**	**537.296**	**10.857.318**
Segment Liabilities	6.863.799	1.734.771	339.746	8.938.316
Shareholders' Equity	-	-	1.919.002	1.919.002
Total Liabilities	**6.863.799**	**1.734.771**	**2.258.748**	**10.857.318**

Prior Period	Corporate Banking	Investment Banking	Other	Total
Net Interest Income	212.926	151.398	(4.202)	360.122
Net Fees and Commission Income	5.029	4.128	19.095	28.252
Other Income	14.389	48	64.583	79.020
Other Expense	(57.232)	(26.924)	(61.349)	(145.505)
Profit Before Tax	175.112	128.650	18.127	321.889
Tax Provision				(63.269)
Net Profit				**258.620**
Group's profit / loss				260.763
Non-controlling interest				(2.143)
Prior Period	**Corporate Banking**	**Investment Banking**	**Other**	**Total**
Segment Assets	6.295.356	3.249.863	396.000	9.941.219
Investment in Associates and Subsidiaries	-	-	192.415	192.415
Total Assets	**6.295.356**	**3.249.863**	**588.415**	**10.133.634**
Segment Liabilities	6.490.125	1.807.516	278.892	8.576.533
Shareholders' Equity	-	-	1.557.101	1.557.101
Total Liabilities	**6.490.125**	**1.807.516**	**1.835.993**	**10.133.634**

XXIII. Explanations on other matters

None.

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

SECTION FOUR

INFORMATION ON FINANCIAL STRUCTURE

I. Explanations related to the consolidated capital adequacy standard ratio

As of 1 July 2012, capital adequacy standard ratio is calculated in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks", which was published on 28 June 2012 in the Official Gazette numbered 28337. In this context, credit and market risk are calculated based on the Standardised Approach and the operational risk is calculated based on the Basic Indicator Approach. In the calculation process of credit risk, loans are classified in the related risk weight by taking into account the risk portfolio types, ratings and credit risk mitigation techniques. The Parent Bank uses "comprehensive quarantee approach" for trading book items in the credit mitigation process.

As of 31 December 2012, the Parent Bank's capital adequacy ratios in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" is 19,43%. The Parent Bank did not recalculate the capital adequacy ratio for prior periods, according to the Communiqué on "Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures", which was published on 28 June 2012 in the Official Gazette numbered 28337.

Information related to the consolidated capital adequacy standard ratio

	Risk Weights (*)						
	Parent Bank						
	0%	**20%**	**50%**	**75%**	**100%**	**150%**	**200%**
The Amount Subject to Credit Risk	**2.291.734**	**518.618**	**1.689.274**	**39.029**	**7.200.975**	**8**	**8**
Risk Types							
Contingent and Non-Contingent Claims on Sovereigns	2.270.481	-	345.062	-	-	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	600	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	-	-	-	-	4.418	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	-	518.018	1.343.134	-	83.638	-	-
Contingent and Non-Contingent Claims on Corporate	-	-	-	-	6.709.627	-	-
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	-	-	-	39.029	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	1.078	-	-	-	-
Past Due Loans	-	-	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	-	8	8
Securities Secured by Mortgage	-	-	-	-	-	-	-
Securitization Exposures	-	-	-		-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	-	-	-	-	82.060	-	-
Other Claims	21.253	-	-	-	321.232	-	-

(*)The Group has no credit risk related to 10% and 1250% risk weight.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Summary information related to the consolidated capital adequacy standard ratio

	Parent Bank	Consolidated
	Current Period (*)	**Current Period (*)**
Capital Requirement for Credit Risk (Amount subject to Credit Risk*0,08) (CRCR)	652.296	654.291
Capital Requirement for Market Risk (CRMR)	15.460	15.101
Capital Requirement for Operational Risk (CROR)	47.693	56.193
Shareholders' Equity	1.820.009	1.762.403
Shareholders' Equity/((CRCR+CRMR+CROR) *12,5)*100	**20,35**	**19,43**

(*)The Parent Bank did not recalculate the capital adequacy ratio related to prior periods as of 1 July 2012, according to provisional act 1 of "Publicly Announced Communiqué on Financial Statements and Related Disclosures and Footnotes".

Information related to the components of consolidated shareholders' equity

CORE CAPITAL	**Current Period**	**Prior Period(***)**
Paid-in Capital	1.100.000	800.000
Nominal Capital	1.100.000	800.000
Capital Commitments (-)	-	-
Inflation Adjustment to Share Capital	374	374
Share Premium	388	413
Share Cancellation Profits	-	-
Legal Reserves	195.793	300.572
Inflation Adjustment on Legal Reserves, Statutory Reserves and Extraordinary Reserves	-	-
Profit	369.263	310.617
Current Period Profit	317.010	260.763
Prior Years' Profits	52.253	49.854
Provisions for Possible Losses up to 25% of Core Capital	-	-
Profit on sale of associates, subsidiaries and buildings	35.157	31.174
Primary subordinated loans	-	-
Non-controlling interest	84.258	96.791
Loss that is not covered with reserves (-)	-	-
Net current period loss	-	-
Prior period loss	-	-
Leasehold improvements (-)	(873)	(506)
Intangible assets (-)	(1.015)	(865)
Deferred-assets for tax which exceeds 10% of core capital (-)	-	-
Excess amount expressed in the Law (Article 56, 3rd paragraph) (-	-	-
Consolidation Goodwill (Net) (-)	(1.005)	(1.005)
Total Core Capital	**1.782.340**	**1.537.565**

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

Information related to the components of consolidated shareholders' equity (continued)

SUPPLEMENTARY CAPITAL	**Current Period**	**Prior Period(***)**
General Loan Loss Provisions	77.247	58.491
45% of the Revaluation Reserve for Movable Fixed Assets	-	-
45% of the of Revaluation Reserve for Properties	-	-
Bonus Shares Obtained from Associates, Subsidiaries and Entities Under Common Control	-	-
Primary Subordinated Loans Excluded in the Calculation of the Core Capital	-	-
Secondary Subordinated Loans (*)	53.040	75.400
45% of the Marketable Securities Value Increase Fund (**)	60.189	7.722
Indexation Differences for Capital Reserves, Profit Reserves and Retained Earnings (Except Indexation Differences for Legal Reserves, Statutory Reserves and Extraordinary Reserves)		
Non Controlling Interest	7	-
Total Supplementary Capital	**190.483**	**141.613**
CAPITAL	**1.972.823**	**1.679.178**
DEDUCTIONS FROM THE CAPITAL	**(210.420)**	**(190.867)**
Shareholdings in Non-consolidated Banks and Financial Institutions	-	-
Loans Extended to Banks, Financial Institutions (Domestic and Abroad) and Qualified Shareholders, Like Secondary Subordinated Loan and Debt Instruments Purchased from These Institutions Issued, Like Primary and Secondary Subordinated Loan	-	-
Banks and Financial Institutions to which are Accounted for Under Equity Method, but, are not Consolidated	(210.046)	(190.472)
Loans Extended Being Non-compliant with Articles 50 and 51 of the Law	-	-
The Net Book Value of Properties Exceeding Fifty Percent of Equity and Properties Held for Sale and Properties and Commodity to be Disposed, Acquired in Exchange of Loans and Receivables According to the Article 57 of the Banking Law and have not been Disposed yet After 5 Years After Foreclosure	(374)	(395)
Securitisation Positions Deducted from Equity Preferred	-	-
Other	-	-
TOTAL SHAREHOLDERS' EQUITY	**1.762.403**	**1.488.311**

(*) According to BRSA's " Regulation on Equity of Banks", 60% amount of the Parent Bank's Subordinated Loan is included in the calculation of supplementary capital if the maturity of the subordinated loan is less than 5 years.

(**) 45% of marketable securities value increase fund is included in computation if marketable securities value increase fund is positive, 100% is included if negative.

(***)The previous year's datas relating to the table above that is changed with the Communiqué on "Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures", which was published on 28 June 2012 in the Official Gazette numbered 28337 are shown according to the new table and total equity is not changed.

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

I. Explanations related to the consolidated capital adequacy standard ratio (continued)

The approaches used for internal capital adequacy assessment in terms of current and future activities

The evaluation of the Parent Bank's internal capital adequacy assessment in terms of current and future activities is carried out within the framework of the principles identified at the Capital Adequacy Policy approved in the Board of Directors meeting held on 28 September 2012.

The purpose of the internal assessment process of capital requirements is to identify and evaluate all the risks both included and not included in the calculations of regulatory capital requirement, by this means, to ensure keeping sufficient capital to cover these risks and to ensure the application of appropriate risk management techniques.

The Parent Bank's internal assessment process is risk-oriented and future-oriented. Current and future capital requirements are analyzed in accordance with the Parent Bank's strategic objectives and anticipated capital costs, target capital levels and capital resources are taken into account. Through the process of internal assessment, a general capital level and assessment are exhibited, the results and findings of the internal assessment process are taken into consideration in the process of assessment of the Parent Bank's strategy and risk appetite.

Within the scope of the process, for the current period and the three-year period covering the years 2013-2015, the Bank's capital requirement and internal capital adequacy is evaluated, based on the the Bank's asset structure and risk profile, the expectations on macro-economic factors such as economic growth and foreign exchange rates, and stress scenarios, In this context, interest rate risk in the banking book, concentration risk for sectors, countries and economic groups within credit risk, liquidity risk and other risks including reputation risk, strategic risk, etc., as well as credit risk, market risk and operational risk which are contained in the calculation of the regulatory capital requirement, are included.

II. Explanations related to consolidated credit risk

The sectoral breakdown of loans is documented monthly and limitations are made according to evaluations. There is no limitation applied geographically.

Monitoring and checking is made for the treasury operations. Risk limits are identified for the operations implemented.

The credit monitoring department screens the creditworthiness of loan customers once every six mounts 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" ("Communiqué on Reserves"). Their financial statements are obtained as prescribed in the legislation. The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Parent Bank takes enough collateral for the loans and other receivables extended. The collaterals obtained consist of personal surety ship, 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 counter parties.

In accordance with TAS and Turkish Financial Reporting Standards;

Impaired loans, are loans past due more than 90 days as of reporting period or convinced to be impaired due to credibility. In accordance with Communiqué on Reserves, "Specific Provision" is allocated for these loans.

Past due loans, are loans past due up to 90 days as of reporting period but not impaired. In accordance with Communiqué on Reserves, "General Provision" is calculated for these loans.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

Total amount of exposures after offsetting transactions but before applying risk mitigations and the average exposure amounts that are classified in different risk groups and types

	Current Period Risk Amount (*)	Average Risk Amount (**)
Contingent and Non-Contingent Claims on Sovereigns	3.433.261	3.346.312
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	3.000
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	26.419	25.233
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	2.599.335	2.588.510
Contingent and Non-Contingent Claims on Corporates	9.072.669	8.949.003
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	236.926	246.009
Contingent and Non-Contingent Claims Secured by Real Estate Property	1.078	539
Past Due Loans	-	-
Higher-Risk Categories Defined by Agency	16	17
Securities Secured by Mortgage	-	-
Securitization Exposures	-	-
Short-Term Claims on Banks and Corporate	-	-
Undertakings for Collective Investments in Transferable Securities	205.611	255.927
Other Claims	342.485	338.919

(*) Includes total risk amounts before the effect of credit risk mitigation.
(**) Average risk amounts are the arithmetical average of the amounts in monthly reports in which capital adequacy is measured in accordance with Basel II, starting from 1 July 2012 to the period end.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the Parent Bank's 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 Parent 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 Parent 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 Parent 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 counter party limits are set with operations made with the banks.

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

The Parent 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.

The first 100 and 200 largest cash loans constitute 83,83% and 97,77% of the total cash loans portfolio of the Group respectively (31 December 2011: 84,47% and 98,81%).

The first 100 and 200 largest non cash loans constitute 100% and %100 of the total non cash loans portfolio of the Group respectively (31 December 2011: 100% and 100%).

The first 100 and 200 largest cash and non cash loans constitute 83,05% and 97,24% of the total on and off balance sheet accounts of the Group respectively (31 December 2011: 84,59% and 98,62%).

The Parent Bank calculated the general loan loss provision of TL 77.247 (31 December 2011: TL 58.491).

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

Profile of Significant Exposures in Major Regions

	Risk Types (*)																
	Contingent and Non-Contingent Claims on Sovereigns	Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	Contingent and Non-Contingent Claims on Multilateral Development Banks	Contingent and Non-Contingent Claims on International Organizations	Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	Contingent and Non-Contingent Claims on Corporates	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	Contingent and Non-Contingent Claims Secured by Real Estate Property	Past Due Loans	Higher-Risk Categories Defined by Agency	Securities Secured by Mortgage	Securitization Exposures	Short-Term Claims on Banks and Corporate	Undertakings for Collective Investments in Transferable Securities	Other Claims	Total
Current Period																	
Domestic	2.615.543	600	4.418	-	-	1.665.450	6.709.626	39.013	1.078	-	16	-	-	-	81.854	33.534	11.151.132
European Union (EU) Countries	-	-	-	-	-	34.060	-	-	-	-	-	-	-	-	-	2.957	37.017
OECD Countries (**)	-	-	-	-	-	603	-	-	-	-	-	-	-	-	-	-	603
Off-Shore Banking Regions	-	-	-	-	-	83.638	-	-	-	-	-	-	-	-	-	-	83.638
USA, Canada	-	-	-	-	-	36.050	-	-	-	-	-	-	-	-	-	-	36.050
Other Countries	-	-	-	-	-	27.915	-	-	-	-	-	-	-	-	-	-	27.915
Associates, Subsidiaries and Joint-Ventures	-	-	-	-	-	97.074	-	-	-	-	-	-	-	-	206	2.143	99.423
Unallocated Assets/ Liabilities (***)	-	-	-	-	-	-	1	16	-	-	-	-	-	-	-	303.851	303.868
Total	**2.615.543**	**600**	**4.418**	**-**	**-**	**1.944.790**	**6.709.627**	**39.029**	**1.078**	**-**	**16**	**-**	**-**	**-**	**82.060**	**342.485**	**11.739.646**

(*)Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks'' have been used.

(**) Includes OECD countries other than EU countries, USA and Canada.

(***) Includes asset and liability items that cannot be allocated on a consistent basis.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

Risk profile by sectors or counterparties

	Risk Types (*)																		
	Contingent and Non-Contingent Claims on Sovereigns	Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprises	Contingent and Non-Contingent Claims on Multilateral Development Banks	Contingent and Non-Contingent Claims on International Organizations	Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	Contingent and Non-Contingent Claims on Corporates	Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	Contingent and Non-Contingent Claims Secured by Real Estate Property	Past Due Loans	Higher-Risk Categories Defined by Agency	Securities Secured by Mortgage	Securitization Exposures	Short-Term Claims on Banks and Corporate	Undertakings for Collective Investments in Transferable Securities	Other Claims	TL	FC	Total
Agriculture	-	-	-	-	-	-	12.024	-	-	-	-	-	-	-	-	629	6.297	6.356	12.653
Farming and Stockbreeding	-	-	-	-	-	-	12.024	-	-	-	-	-	-	-	-	267	5.935	6.356	12.291
Forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	362	362	-	362
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	23.504	4.974.343	-	-	-	-	-	-	-	-	2.486	264.056	4.736.277	5.000.333
Mining and Quarrying	-	-	-	-	-	-	41.880	-	-	-	-	-	-	-	-	-	-	41.880	41.880
Production	-	-	-	-	-	8.035	1.947.948	-	-	-	-	-	-	-	-	1.194	179.228	1.777.949	1.957.177
Electricity, Gas and Water	-	-	-	-	-	15.469	2.984.515	-	-	-	-	-	-	-	-	1.292	84.828	2.916.448	3.001.276
Construction	-	-	-	-	-	-	153.518	-	-	-	-	-	-	-	-	-	17.553	135.965	153.518
Services	145.973	-	4.184	-	-	1.921.270	1.565.210	-	1.078	-	-	-	-	-	82.060	34.182	890.231	2.863.726	3.753.957
Wholesale and Retail Trade	-	-	-	-	-	-	354.482	-	-	-	-	-	-	-	-	-	41.776	312.706	354.482
Accommodation and Dining	-	-	-	-	-	1.236	207.953	-	-	-	-	-	-	-	-	-	10	209.179	209.189
Transportation and Telecommunication	-	-	-	-	-	-	417.806	-	-	-	-	-	-	-	-	1.235	1.358	417.683	419.041
Financial Institutions	145.973	-	4.184	-	-	1.920.034	1.994	-	-	-	-	-	-	-	82.060	32.100	823.563	1.362.782	2.186.345
Real Estate and Rental Services	-	-	-	-	-	-	385.195	-	-	-	-	-	-	-	-	-	14.113	371.082	385.195
Professional Services	-	-	-	-	-	-	152.732	-	-	-	-	-	-	-	-	847	9.411	144.168	153.579
Educational Services	-	-	-	-	-	-	12.419	-	-	-	-	-	-	-	-	-	-	12.419	12.419
Health and Social Services	-	-	-	-	-	-	32.629	-	1.078	-	-	-	-	-	-	-	-	33.707	33.707
Others	2.469.570	600	234	-	-	16	4.532	39.029	-	-	16	-	-	-	-	305.188	2.462.431	356.754	2.819.185
Total	**2.615.543**	**600**	**4.418**	**-**	**-**	**1.944.790**	**6.709.627**	**39.029**	**1.078**	**-**	**16**	**-**	**-**	**-**	**82.060**	**342.485**	**3.640.568**	**8.099.078**	**11.739.646**

(*)Risk types in the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" have been used..

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

Analysis of maturity-bearing exposures according to remaining maturities

Risk Types	Term to Maturity				
	Up to 1 month	**1-3 months**	**3-6 months**	**6-12 months**	**Over 1 year**
Contingent and Non-Contingent Claims on Sovereigns	247.470	59.518	152.402	165.100	1.963.716
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	-	-	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	65	-	-	1.982	2.367
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	249.657	256.360	54.265	109.833	1.215.073
Contingent and Non-Contingent Claims on Corporates	64.526	102.502	82.847	232.854	6.205.047
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	35.752	-	-	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	-	-	-	1.078	-
Past Due Loans	-	-	-	-	-
Higher-Risk Categories Defined by Agency	-	-	-	-	16
Securities Secured by Mortgage	-	-	-	-	-
Securitization Exposures	-	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	4.454	-	10	-	77.390
Other Claims	-	-	-	-	-
Total	**601.924**	**418.380**	**289.524**	**510.847**	**9.463.609**

Information on risk types

Referring to article No. 7 of the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks", in the process of risk weighted assets calculation, risk weights are determined through ratings given by authorized rating companies. Ratings given by International Rating Companies can be used for receivables includes receivables from Banks and Brokerage Houses settled abroad, receivables from Regional Authorities and Local Authorities, receivables from Administrative Bodies and Non-Commercial Undertakings, receivables from Multilateral Development Banks and Corporate Receivables risk weights. The Resident Institutions are assessed as unrated.

In determination of risk weights for exposures on capital adequacy calculation of the Parent Bank, ratings are used given by Fitch Ratings Rating Agency.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

Information on risk types (continued)

The table related to mapping of the ratings given by Fitch Ratings' International Rating Agency as per credit quality grades and risk weights used in the calculations, is as follows.

Credit Quality Grades	Fitch Ratings	Risk Types			
			Claims on Banks and Capital Market Intermediary		
		Claims on Sovereigns	Claims with Remaining Maturities Less Than 3 Months	Claims with Remaining Maturities More Than 3 Months	Claims on Corporate Receivables
1	AAA AA+ AA AA-	0%	20%	20%	20%
2	A+ A A-	20%	20%	50%	50%
3	BBB+ BBB BBB-	50%	20%	50%	100%
4	BB+ BB BB-	100%	50%	100%	100%
5	B+ B B-	100%	50%	100%	150%
6	CCC+ CCC CCC- CC C D	150%	150%	150%	150%
Unrated	Unrated	100%	20% (*)	50% (*)	100%

(*)Used in case when the risk weight of the sovereign of the Bank's country is not higher.

Exposures by risk weights

Risk Weights	0%	10%	20%	50%	75%	100%	150%	200%	1250%	Deducted from Equities
Exposures Before Credit Risk Mitigation (*)	3.109.444	-	677.179	1.663.440	117.583	7.407.027	8	8	-	213.313
Exposures After Credit Risk Mitigation	2.291.734	-	518.618	1.689.274	39.029	7.200.975	8	8	-	213.313

(*)Includes risk amounts after the credit conversions and before the effect of credit risk mitigation.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

Information of major sectors or type of counterparties

	Loans			
Major Sectors / Counterparties	**Impaired Loans**	**Past Due Loans**	**Value Adjustments**	**Provisions**
Agriculture	3.422	-	-	(3.422)
Farming and Stockbreeding	3.422	-	-	(3.422)
Forestry	-	-	-	-
Fishery	-	-	-	-
Manufacturing	4.523	985	10	(4.523)
Mining and Quarrying	191	-	-	(191)
Production	4.332	-	-	(4.332)
Electricity, Gas and Water	-	985	10	-
Construction	513	-	-	(513)
Services	7.166	-	-	(7.166)
Wholesale and Retail Trade	399	-	-	(399)
Accommodation and Dining	963	-	-	(963)
Transportation and Telecommunication	74	-	-	(74)
Financial Institutions	413	-	-	(413)
Real Estate and Rental Services	-	-	-	-
Professional Services	-	-	-	-
Educational Services	-	-	-	-
Health and Social Services	5.317	-	-	(5.317)
Others	-	-	-	-
Total	**15.624**	**985**	**10**	**(15.624)**

Information related with value adjustments and loan loss provisions

	Opening balance	**Provision for the period**	**Provision reversals**	**Other adjustments**	**Closing balance**
Specific Provisions	27.698	613	12.687	-	15.624
General Loan Loss Provision	58.491	18.756	-	-	77.247

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

Cash credit quality per class of financial assets as of 31 December 2012 is as follows:

Current Period	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans	6.813.234	985	6.814.219
Corporate Loans	5.165.193	-	5.165.193
Loans to SME	1.613.950	985	1.614.935
Consumer Loans	168	-	168
Other	33.923	-	33.923
Receivables from Leasing Transactions	9.432	-	9.432
Total	**6.822.666**	**985**	**6.823.651**

Cash credit quality per class of financial assets as of 31 December 2011 is as follows:

Prior Period	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans	6.265.780	1.176	6.266.956
Corporate Loans	5.375.507	1.176	5.376.683
Loans to SME	870.370	-	870.370
Consumer Loans	182	-	182
Other	19.721	-	19.721
Receivables from Leasing Transactions	28.399	1	28.400
Total	**6.294.179**	**1.177**	**6.295.356**

Credit risk is evaluated according to the Parent Bank's internal rating. Non financial services customers included in credit portfolio are rated with respect to Parent Bank's internal rating and ratings of the financial services 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.

Basic Loan Quality Categories	**Current Period**	**Prior Period**
Top Grade	410.632	362.285
High Grade	2.877.120	2.475.919
Average Grade	3.254.586	3.867.001
Below Average Grade	1.444.957	803.916
Impaired	15.624	20.330
Total	**8.002.919**	**7.529.451**

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

As of 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 provisions) is TL 8.051.832; and TL 48.913 of these customers have not been rated (31 December 2011: TL 7.592.033; TL 62.582).

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

II. Explanations related to consolidated credit risk (continued)

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

	Current Period	Prior Period
Banks	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-
Loans	27.595	62.198
Corporate Loans	23.270	56.458
Loans to SME	3.330	759
Consumer Loans	-	-
Other	995	4.981
Total	**27.595**	**62.198**

III. Explanations related to the consolidated market risk

In order to avoid the market risk and restrict the risks carried, the Board of Directors determines the limits on market risk. Risk, notional and proportional basis limitation systems are used and informative reports regarding market risk position of the bank are presented to Board of Directors, relevant committees and top management.

The guidelines prepared by Risk Management Group that is composed of Risk Management Directorate and Risk Management Committee regarding organization, responsibility and fields of activity were approved by the Board of Directors. Risk management policies were determined and announced throughout the Parent Bank.

Legally, the standard method is used to calculate the consolidated and consolidated market risk. In addition to the standard method, the Parent Bank applies parametric and historical simulation models to securities portfolio, foreign currency position on a daily or monthly basis to detect the market risks. The success of these models is tested retrospectively. The Parent Bank also makes VaR calculations, scenario analyses and stress tests to detect the risks not caught by using internal models. Market risk is measured on a daily basis and reported to top management, Audit Committee and the Board of Directors weekly and monthly. The consolidated market risk table is as follows:

1.a Information related to the consolidated market risk:

	Amount
(I) Capital Requirement to be Employed for General Market Risk - Standard Method	4.449
(II) Capital Requirement to be Employed for Specific Risk - Standard Method	768
Capital Requirement for Specific Risk Relating to Securitization Positions – Standard Method	-
(III) Capital Requirement to be Employed for Currency Risk - Standard Method	8.192
(IV) Capital Requirement to be Employed for Commodity Risk - Standard Method	-
(V) Capital Requirement to be Employed for Settlement Risk - Standard Method	-
(VI) Total Capital Requirement to be Employed for Market Risk Resulting From Options – Standard Method	-
(VII) Counterparty credit risk capital requirement - Standard method	1.692
(VIII) Total Capital Requirement to be Employed for Market Risk in Banks Using Risk Measurement Model	-
(IX) Total Capital Requirement to be Employed for Market	15.101
(X) Amount Subject to Market Risk (12,5 x VIII) or (12,5 x VII)	**188.763**

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

III. Explanations related to the consolidated market risk (continued)

1.b Average market risk table as of the month ends during the period:

	Current Period		
	Average	**Maximum**	**Minimum**
Interest Rate Risk	4.688	4.737	4.639
Common Stock Risk	335	480	190
Currency Risk	9.592	10.992	8.192
Commodity Risk	-	-	-
Settlement Risk	-	-	-
Option Risk	42	83	-
Counterparty Credit Risk	2.398	3.103	1.692
Total Value At Risk	**17.055**	**19.395**	**14.713**

Risk information given above includes the period between July– December 2012 and represents the amounts calculated under the “Regulation on Measurement and Assessment of the Capital Adequacy of the Banks” published on 28 June 2012.

2. Explanation related to counter party risk

The Parent Bank gives long term, medium term and short term loans within principles and limits determined by the Board of Directors according to the Banking Law. Loan transactions includes all manner of lending type about financing investments and need to working capital of firms, domestic and foreign loan participation from primary and secondary market, underwriting to purchase and sell of bond and legal instruments that will issued, provide APEX loan facilities to banks and financial institutions by leasing, treasury derivative transaction within limits assigned to firms, export-import transactions, treasury, money and capital market and derivative transaction within limits in countenance of financial institutions (Counterparties).

Project guarantee, mortgage, personnel guarantee, company guarantee, cheques and notes, cash blockage, stock and security pledges could be taken on Treasury, Money and Capital Market and Derivative transaction within limits in countenance of non-financial institutions (Counterparties). On Treasury, Money and Capital Market transaction within limits in countenance of financial institutions (Counterparties) guarantee is not taken and on derivative transactions collateral netting is applied for the firms that signed CSA agreements based on daily derivative valuation. The provision is reserved in accordance with “Substance of the Procedures and Principles Related to Determination of Loans and Other Receivables by the Banks and Allocation of Provision for Those” and international practices.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

III. Explanations related to the consolidated market risk (continued)

2. Explanation related to counter party risk (continued)

	Amount
Interest Rate Contracts	22.318
Foreign Exchange Rate Contracts	14.265
Commodity Contracts	-
Equity Shares Related Contracts	-
Other	-
Gross Positive Fair Values	36.583
Net-off Benefits	-
Net-off Current Risk Amount	36.583
Collaterals Received	8.112
Net Derivative Position	28.471

3. Required disclosures in case the capital requirement of the Bank is calculated by a risk measurement model permitted by BRSA

Internal model is not used on the calculation of capital requirements for counterparty loan risk.

Other price risks

The Parent Bank is exposed to equity price risks arising from equity investments. Equity investments are mostly held for trading purposes. The Parent Bank does not actively trade these investments.

Equity shares price sensitivity

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

If the inputs (equity shares prices) to the valuation model had been 20% higher/lower while all other variables were held constant;

The Group classify its equity investments both as held for trading and available for sale investments. Therefore, the net profit/loss is not affected as long as the Group does not sell its equity investments classified as available for sale investments. According to the analysis results under these assumptions; profit/loss will increase/decrease by TL 3.354 (31 December 2011: TL 955), marketable securities classified as financial assets held for trading would decrease/increase by TL 516 (31 December 2011: TL 2.307 marketable securities value increase fund increase/decrease).

IV. Explanations related to consolidated 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.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

IV. Explanations related to consolidated operational risk (continued)

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 incomes, operational expense for support service from a bank and recoveries from insurance.

	31 December 2009	31 December 2010	31 December 2011	Total/No. of years of positive gross	Rate (%)	Total
Gross Income	355.197	364.360	404.306	374.621	15	**56.193**
Value at Operational Risk (Total*12,5)						**702.413**

V. Explanations related to consolidated currency risk

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 Parent Bank'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 has no hedging transactions through derivative instruments for its foreign currency borrowings and net foreign currency investments.

Announced current foreign exchange buying rates of the Parent Bank as at reporting date and the previous five working days in USD and EURO are as follows:

	1 USD	1 Euro
A. Bank "Foreign Exchange Valuation Rate"		
31 December 2012	1,7680	2,3324
Prior Five Workdays:		
28 December 2012	1,7690	2,3434
27 December 2012	1,7730	2,3471
26 December 2012	1,7750	2,3407
25 December 2012	1,7850	2,3533
24 December 2012	1,7830	2,3512

Simple arithmetic thirty-day averages of the USD and EURO buying rates of the Parent Bank before the reporting date are TL 1,7735 and 2,3257; respectively.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

V. Explanations related to consolidated currency risk (continued)

Information on the Group's foreign currency risk: foreign currencies

	Euro	USD	Other FC	Total
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased, Precious Metals) and Balances with the Central Bank of Turkey	43.151	64.050	-	107.201
Banks	27.984	34.350	480	62.814
Financial Assets at Fair Value Through Profit and Loss (*)	5.815	10.664	-	16.479
Money Market Placements	-	-	-	-
Available-For-Sale Financial Assets	33.697	440.952	-	474.649
Loans (**)	2.908.148	3.663.902	-	6.572.050
Subsidiaries, Associates and Entities Under Common Control (Joint Vent.)	-	-	-	-
Held-To-Maturity Investments	-	-	-	-
Derivative Financial Assets for Hedging Purposes	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets (***)	9.108	13.038	3	22.149
Total Assets	**3.027.903**	**4.226.956**	**483**	**7.255.342**
Liabilities				
Bank Deposits	-	-	-	-
Foreign Currency Deposits	-	-	-	-
Money Market Borrowings	21.668	215.634	8	237.310
Funds Provided From Other Financial Institutions	3.326.483	3.649.428	-	6.975.911
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	1.441	34.132	24	35.597
Derivative Financial Liabilities for Hedging Purposes	-	-	-	-
Other Liabilities (****)	7.991	17.757	1	25.749
Total Liabilities	**3.357.583**	**3.916.951**	**33**	**7.274.567**
Net Balance Sheet Position	**(329.680)**	**310.005**	**450**	**(19.225)**
Net Off-Balance Sheet Position	242.119	(261.867)	893	(18.855)
Financial Derivative Assets	416.985	130.153	893	548.031
Financial Derivative Liabilities	(174.866)	(392.020)	-	(566.886)
Non-Cash Loans (*****)	110.311	811.491	-	921.802
Prior Period				
Total Assets	2.912.023	4.409.835	2.553	7.324.411
Total Liabilities	3.226.280	3.863.055	1.006	7.090.341
Net Balance Sheet Position	**(314.257)**	**546.780**	**1.547**	**234.070**
Net Off –Balance Sheet Position	**225.591**	**(559.302)**	**(321)**	**(334.032)**
Financial Derivative Assets	747.673	327.183	2.954	1.077.810
Financial Derivative Liabilities	(522.082)	(886.485)	(3.275)	(1.411.842)
Non-Cash Loans (*****)	255.130	715.394	-	970.524

(*)Exchange rate differences arising from derivative transactions amounting to TL 1.354 is deducted from "Financial Assets at Fair Value Through Profit and Loss".
(**)Loans extended include TL 1.454.813 foreign currency indexed loans.
(***)Prepaid expenses amounting to TL 3.555 have not been included in "Other Assets".
(****) Marketable securities valuation increase fund amounting to TL 69.385 and exchange rate differences arising from derivative transactions amounting to TL 1.519 have not been included in "Other Liabilities". Borrower funds amounting TL 7.836 based on foreign currencies have been included in "Other Liabilities".
(*****) Has no effect on net off-balance sheet position.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

V. Explanations related to consolidated currency risk (continued)

The Group is mostly exposed to Euro, US Dollars, other foreign currencies.

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

	Increase in Currency Rate	**Effect on Profit / Loss (*)**		**Effect on Equity(**)**	
	%	Current Period	Prior Period	Current Period	Prior Period
USD	10	1.022	(3.250)	3.792	1.998
Euro	10	(8.857)	(8.869)	101	3
Other	10	134	123	-	-

	Increase in Currency Rate	**Effect on Profit / Loss (*)**		**Effect on Equity(**)**	
	%	Current Period	Prior Period	%	Current Period
USD	10	(1.022)	3.250	(3.792)	(1.998)
Euro	10	8.857	8.869	(101)	(3)
Other	10	(134)	(123)	-	-

(*) Values expressed are before the tax effect.
(**)Effect on equity does not include effect on profit/loss.

Forward foreign exchange contracts

The Group does not have forward foreign exchange contracts to hedge the risk exposure from payments and collections in any foreign exchange.

VI. Explanations related to consolidated interest rate risk

Interest rate sensitivity of the assets, liabilities and off-balance sheet items are measured by the Parent Bank. General and specific interest rate risk tables in the standard method, by including assets and liabilities, are taken into account in determination of Capital Adequacy Standard Ratio and to calculate the overall interest rate risk of the Parent Bank.

Forecast results which have been formed using estimation-simulation reports are prepared and then the effects of fluctuations in interest rates are evaluated with sensitivity and scenario analyzes. Cash requirement for every maturity period are determined based on maturity distribution analysis (Gap). In addition, a positive spread between the yield on assets and the cost of liabilities is kept while determining interest rates.

The amount of local borrowings is very low considering the total liabilities of the Parent Bank. As the Parent Bank is a development and investment bank, it obtains most of the funding from abroad.

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Parent Bank screens many risk control ratio including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and top management, Board of Directors and Audit Committee are informed of these risks.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates)

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (*)	Total
Assets							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-	-	132.666	132.666
Banks	22.054	333.221	43.804	-	-	40.996	440.075
Financial Assets at Fair Value Through Profit and Loss	6.182	11.103	9.022	5.686	5.739	3.437	41.169
Money Market Placements	199	-	-	-	-	-	199
Available-for-Sale Financial Assets	979.951	726.647	483.844	377.504	275.789	38.527	2.882.262
Loans	1.098.707	2.467.258	2.819.258	357.741	40.472	30.783	6.814.219
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (**)	8.282	7.585	793	37	-	530.031	546.728
Total Assets	**2.115.375**	**3.545.814**	**3.356.721**	**740.968**	**322.000**	**776.440**	**10.857.318**
Liabilities							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	1.499.687	2.164	777	-	-	-	1.502.628
Miscellaneous Payables	-	-	-	-	-	112.830	112.830
Marketable Securities Issued	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	2.435.160	2.792.656	1.564.704	84.866	241.344	-	7.118.730
Other Liabilities (***)	10.875	380	1.989	7.941	9.563	2.092.382	2.123.130
Total Liabilities	**3.945.722**	**2.795.200**	**1.567.470**	**92.807**	**250.907**	**2.205.212**	**10.857.318**
Balance Sheet Long Position	-	750.614	1.789.251	648.161	71.093	-	3.259.119
Balance Sheet Short Position	(1.830.347)	-	-	-	-	(1.428.772)	(3.259.119)
Off-Balance Sheet Long Position	73.921	56.549	-	9.960	-	-	140.430
Off-Balance Sheet Short Position	-	-	(82.257)	-	(52.096)	-	(134.353)
Total Position	**(1.756.426)**	**807.163**	**1.706.994**	**658.121**	**18.997**	**(1.428.772)**	**6.077**

(*) Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

(**) Finance lease receivables amounting to TL 9.432 are presented in "Other Assets" on the basis of related maturities.

(***) Borrower funds amounting to TL 9.745 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments: %

	Euro	USD	Yen	TL
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-
Banks	3,52	-	-	7,75
Financial Assets at Fair Value Through Profit and Loss	-	7,00	-	8,79
Money Market Placements	-	-	-	4,75
Available-for-Sale Financial Assets	5,36	6,49	-	9,04
Loans	3,75	4,25	-	10,32
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	0,76	1,02	-	5,62
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds	1,00	1,00	-	6,50
Funds Provided From Other Financial Institutions	1,18	1,19	-	6,62

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items of prior period (based on repricing dates)

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-interest bearing (*)	Total
Assets							
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-	-	121.109	121.109
Banks	314.190	58.582	-	-	-	52.454	425.226
Financial Assets at Fair Value Through Profit and Loss	9.015	19.646	52.006	51.754	1.617	16.287	150.325
Money Market Placements	109.365	-	-	-	-	-	109.365
Available-for-Sale Financial Assets	772.132	497.600	304.502	429.135	286.982	26.532	2.316.883
Loans	1.272.101	2.389.602	2.155.005	366.888	68.492	14.868	6.266.956
Held-to-Maturity Investments	-	126.955	-	-	-	-	126.955
Other Assets (**)	57.908	16.781	6.549	1.138	-	534.439	616.815
Total Assets	**2.534.711**	**3.109.166**	**2.518.062**	**848.915**	**357.091**	**765.689**	**10.133.634**
Liabilities							
Bank Deposits	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-
Money Market Borrowings	1.307.841	59.464	1.058	-	-	-	1.368.363
Miscellaneous Payables	43.136	-	-	-	-	105.524	148.660
Marketable Securities Issued	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	2.369.459	2.852.263	1.393.950	36.657	228.206	-	6.880.535
Other Liabilities (***)	20.260	11.490	12.480	6.323	6.084	1.679.439	1.736.076
Total Liabilities	**3.740.696**	**2.923.217**	**1.407.488**	**42.980**	**234.290**	**1.784.963**	**10.133.634**
Balance Sheet Long Position	-	185.949	1.110.574	805.935	122.801	-	2.225.259
Balance Sheet Short Position	(1.205.985)	-	-	-	-	(1.019.274)	(2.225.259)
Off-Balance Sheet Long Position	-	-	389.766	-	117.601	-	507.367
Off-Balance Sheet Short Position	(123.097)	(223.479)	-	(158.060)	-	-	(504.636)
Total Position	**(1.329.082)**	**(37.530)**	**1.500.340**	**647.875**	**240.402**	**(1.019.274)**	**2.731**

(*) Amounts in investments in associates and subsidiaries, entities under common control, deferred tax asset, investment property, tangible and intangible assets, other assets and shareholders' equity, provisions and tax liability are presented in non-interest bearing column, in order to reconcile the total assets and liabilities on the balance sheet.

(**) Finance lease receivables amounting to TL 28.400 are presented in "Other Assets" on the basis of related maturities.

(***) Borrower funds amounting to TL 7.894 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Average interest rates applied to monetary financial instruments in prior period: %

	Euro	USD	Yen	TL
Current Period				
Assets				
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	-	-	-	-
Banks	-	5,38	-	11,55
Financial Assets at Fair Value Through Profit and Loss	-	-	-	8,81
Money Market Placements	-	-	-	11,26
Available-for-Sale Financial Assets	6,03	5,79	-	9,09
Loans	4,88	4,05	4,96	13,07
Held-to-Maturity Investments	-	-	-	35,10
Liabilities				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Money Market Borrowings	1,02	1,78	-	7,99
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds	1,00	1,00	-	6,50
Funds Provided From Other Financial Institutions	2,11	0,88	-	10,30

The interest rate risk of the banking book items

Interest rate risk caused by banking book accounts includes, Receivables from Central Bank, Receivables from Money Markets, Receivable from Banks, Available for Sale Financial Assets, Receivables from Reverse Repurchase Agreement, Receivables from Loans, Held to Maturity Investments and Other Receivables, which are monitored in banking book, in assets and includes Payables to Central Bank in banking accounts, Payables to Money Markets, Payables to Banks, Funds Provided from Repurchase Agreement, Securities Issued by the Bank, Payables to Loans, Subordinated Debts and Other Debts which are monitored in banking book accounts in liabilities. All derivative instruments are recorded in trading book accounts. FR400AS, in mandatory reports list of BRSA, is prepared and reported each month.

In accordance with the communiqué on "Standard Shock Measurement and Evaluation Method of the Interest Rate Risk in Banking Accounts", economic valuation differences of the Parent Bank arising from fluctuations on interest rates, in different currencies are presented in the table below.

Currency	Applied Shock (+/- x basis point)	Revenue/ Loss	Revenue/Shareholders' Equity – Loss/ Shareholders' Equity
TL	+500 / (400) basis point	(44.237) / 39.488	(2,4%) / 2,2%
Euro	+200 / (200) basis point	7.213 / (10.657)	0,4% / (0,6%)
US Dollar	+200 / (200) basis point	(55.064) / 44.673	(3,0%) / 2,5%
Total (for Negative Shocks)		**73.504**	**4,0%**
Total (for Positive Shocks)		**(92.088)**	**(5,1%)**

Interest rate sensitivity

The fluctuations in interest rates are controlled with interest rate risk tables, gap analysis, scenario analysis and stress tests, its effect in assets and liabilities and the probable changes in cash flows are being screened. The Parent Bank screens many risk control ratios including the markets risk ratio to the sum of risk weighted assets and the ratio of the value at risk calculated as per the internal model to the equity.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VI. Explanations related to consolidated interest rate risk (continued)

Interest rate sensitivity (continued)

Under the scope of risk policies, continuous controls are made to prevent assets or shareholders' equity from adverse effects because of fluctuations in interest rates or liquidity difficulties and upper management, Board of Directors and Audit Committee are informed of these risks.

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 decrease on the profit and shareholders' equity would have been TL 1.447 and if interest rates had been 1 bp lower for TL and foreign currencies, the net increase on the profit and shareholders' equity change would have been TL (549).

The Group's available for sale portfolio in the current period increased approximately 17% relatively to prior period and the market value increased approximately 24% . In addition to this, foreign exchange assets in the Parent Bank's portfolio are approximately 16% of the portfolio in the current period while this ratio was 25% in the prior period in terms of fair value.

VII. Explanations related to consolidated stock position risk

The Group is exposed to equity shares risk arising from investments on firms traded in Istanbul Stock Exchange. Share certificate investments are almost used for trading purpose. However, these investments are not actively bought/sold by the Group. The Group classified its share certificate investments both as available for sale and as trading securities and net profit/loss of the Group is not affected unless the Group sell share certificates in portfolio of available for sale.

Equity shares are recognized according to "IAS 39- Financial Instruments: Recognition and Measurement". Trading securities in an active market (in exchange market) are reflected to financial statements with fair value taking into account of quoted securities on exchange market. Non-trading securities in an active market (in exchange market) are followed up according to the acquisition cost and recorded by considering impairment.

Equity shares risk due from banking book

Below is the comparison table of the Group's share certificate instruments' book value, fair value and market value.

Share Certificate Investments	Comparison		
	Book Value	Fair Value	Market Value
Investment in Shares-Grade A	**16.772**	**-**	**16.772**
Quoted	16.772	-	16.772

On the basis of the following table, private equity investments in sufficiently diversified portfolios, type and amount of other risks, cumulative realized gains and losses arising from selling and liquidation in the current period, total unrealized gains and losses, total revaluation increases of trading positions on stock market and their amount that included to core capital and supplementary capital are shown.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VII. Explanations related to consolidated stock position risk (continued)

Equity shares risk due from banking book (continued)

Portfolio	Realized Revenues and Losses in Period	Revaluation Value Increases		Unrealized Gains and Losses		
		Total	Included in Supplementary Capital	Total	Included in Core Capital	Included in Supplementary Capital
Private Equity Investments	-	-	-	-	-	-
Share Certificates Quoted on a Stock Exchange	(1.291)	-	-	2.592	-	1.166
Other Share Certificates	-	-	-	-	-	-
Total	**(1.291)**	**-**	**-**	**2.592**	**-**	**1.166**

VIII. Explanations related to the consolidated liquidity risk

The Parent Bank's future cash flows and current positions are taken into consideration for managing the market and liquidity risks. The Parent Bank does not invest into illiquid markets and instruments. The liquidity ratios are followed up and the maturity match and the coverage of liquidity need are targeted in the context of asset-liability management. Although the Parent Bank started to perform tests to calculate liquidity risk with internal models, the risk is still followed up basically by arranging the risks with respect to (holding period) data.

For the purpose of meeting the liquidity requirement, the Parent Bank chooses one of the three or more of the following; disposing liquid assets, increasing short-term borrowing, decreasing illiquid assets or increasing capital. The Parent Bank's liquidity management is implemented by meeting all the obligations on time considering the Parent Bank's reputation. The cash flow projections and the fund requirement predictions are made by using adverse scenarios to determine liquidity risk under urgent and unexpected circumstances. As seen on interest rate risk tables, the difference in interest rates of assets and liabilities is in favour of the assets. Such mismatch positively affects the profitability and is checked by the Parent Bank Management with regular reports.

The Parent Bank meets its short term liquidity requirements with repurchase agreements and inter-bank money market operations. The Parent Bank may also use its available for sale portfolio for urgent liquidity requirement. The Parent Bank meets its long term liquidity needs from the international institutions through borrowings.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Parent Bank. For the purposes of monitoring and assessing the liquidity position of the Parent Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year 2011 and 2012 are as follows:

	First Maturity Segment (Weekly)		Second Maturity Segment (Monthly)	
Current Period	**FC**	**FC + TL**	**FC**	**FC + TL**
Average (%)	120,33	165,47	117,90	154,16
Prior Period	**FC**	**FC + TL**	**FC**	**FC + TL**
Average (%)	146,75	168,10	137,27	157,67

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VIII. Explanations related to the consolidated liquidity risk (continued)

Presentation of assets and liabilities according to their remaining maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed (*)	Total
Current Period								
Assets								
Cash (Cash in Vault, Foreign Currency Cash, Money in Transit, Checks Purchased) and Balances with the Central Bank of Turkey	28.048	73.678	-	30.940	-	-	-	132.666
Banks	40.996	165.153	233.926	-	-	-	-	440.075
Financial Assets at Fair Value Through Profit and Loss	3.437	1.133	7.635	4.723	15.073	9.168	-	41.169
Money Market Placements	-	199	-	-	-	-	-	199
Financial Assets Available-for-Sale	-	160.235	59.543	317.591	1.519.959	786.407	38.527	2.882.262
Loans	30.783	171.950	274.897	1.204.685	3.833.987	1.297.917	-	6.814.219
Held-to-Maturity Investments	-	-	-	-	-	-	-	-
Other Assets (**)	-	7.282	2.221	3.591	3.603	-	530.031	546.728
Total Assets	**103.264**	**579.630**	**578.222**	**1.561.530**	**5.372.622**	**2.093.492**	**568.558**	**10.857.318**
Liabilities								
Bank Deposits	-	-	-	-	-	-	-	-
Other Deposits	-	-	-	-	-	-	-	-
Funds Provided from Other Financial Institutions	-	259.161	113.773	543.754	2.587.578	3.614.464	-	7.118.730
Money Market Borrowings	-	1.499.687	2.164	777	-	-	-	1.502.628
Securities Issued	-	-	-	-	-	-	-	-
Miscellaneous Payables	12.097	-	5.500	-	-	-	95.233	112.830
Other Liabilities (***)	-	10.875	380	1.989	7.941	9.563	2.092.382	2.123.130
Total Liabilities	**12.097**	**1.769.723**	**121.817**	**546.520**	**2.595.519**	**3.624.027**	**2.187.615**	**10.857.318**
Liquidity Gap	**91.167**	**(1.190.093)**	**456.405**	**1.015.010**	**2.777.103**	**(1.530.535)**	**(1.619.057)**	**-**
Prior Period								
Total Assets	91.809	878.363	398.108	1.154.095	5.122.972	1.927.602	560.685	10.133.634
Total Liabilities	13.682	1.752.632	189.357	569.319	2.461.041	3.376.315	1.771.288	10.133.634
Liquidity Gap	**78.127**	**(874.269)**	**208.751**	**584.776**	**2.661.931**	**(1.448.713)**	**(1.210.603)**	**-**

(*) Other assets and shareholders' equity, provisions and tax liability, which are necessary and cannot be converted into cash in the near future for the Bank's ongoing activities, such as tangible and intangible assets, investments in subsidiaries and associates, entities under common control, office supply inventory, prepaid expenses and non-performing loans are classified under "Undistributed" column.

(**)Finance lease receivables amounting to TL 9.432 are presented in "Other Assets" on the basis of related maturities.

(***)Borrower funds amounting to TL 9.745 are presented in "Other Liabilities" within 1-month maturity column.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

VIII. Explanations related to the consolidated liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

In compliance with the Turkish Financial Reporting Standard No.7, the following table indicates the maturities of the Bank's major financial liabilities which are not qualified as derivatives. The following tables have been prepared by referencing the earliest dates of capital outflows without discounting the financial liabilities.

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Funds Provided from Other Financial Institutions	278.625	121.181	747.445	2.798.639	3.841.923	(669.083)	7.118.730
Money Market Borrowings	1.501.255	2.168	779	-	-	(1.574)	1.502.628
Funds	9.745	-	-	-	-	-	9.745
Total	**1.789.625**	**123.349**	**748.224**	**2.798.639**	**3.841.923**	**(670.657)**	**8.631.103**

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Funds Provided from Other Financial Institutions	283.801	131.635	620.640	2.731.497	3.585.072	(472.110)	6.880.535
Money Market Borrowings	1.363.554	7.192	1.060	-	-	(3.443)	1.368.363
Funds	7.894	-	-	-	-	-	7.894
Total	**1.655.249**	**138.827**	**621.700**	**2.731.497**	**3.585.072**	**(475.553)**	**8.256.792**

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

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Swap Contracts	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
Futures Transactions	-	-	-	-	-	-	-
Options	61.286	27.678	30.726	31.199	-	-	150.889
Other	-	-	-	-	-	-	-
Total	**877.526**	**137.264**	**331.407**	**1.042.052**	**587.097**	**3.366**	**2.978.712**

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Swap Contracts	730.420	123.785	96.597	867.689	484.799	(38.871)	2.264.419
Forward Contracts	345.062	244.870	534.851	110.064	-	-	1.234.847
Futures Transactions	-	-	-	-	-	-	-
Options	407.930	620.790	389.130	49.904	-	-	1.467.754
Other	1.939	-	-	-	-	-	1.939
Total	**1.485.351**	**989.445**	**1.020.578**	**1.027.657**	**484.799**	**(38.871)**	**4.968.959**

IX. Explanations related to consolidated securitization positions

None.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

X. Explanations related to consolidated credit risk mitigation techniques

Offsetting is not used as a credit risk mitigation technique. In assessments within the scope of credit risk mitigation techniques, using methods in regard to valuation and management of collaterals are realized in parallel with communiqué relating to Credit Risk Mitigation Techniques. Financial collaterals are evaluated on a daily basis in the Parent Bank. Depending on the comprehensive financial collateral approach, risk mitigating effects of the collaterals are considered through the standard volatility adjustments. Value of the real estates subject to the collateral is determined at least once a year for commercial real estates and determined at least triennially for residential real estates. In the cases that significant changes in market conditions appear, the review is carried out at more frequent intervals. Within the communiqué, as a matter of credit risk mitigation techniques, only residences and commercial real estates (Warehouse, School, Hospital, Office and Store) which are not used for production purposes and can provide rental income are taken into consideration. In addition, land, field and orchard lands are also considered within same concept. Value of the real estates is assessed by the real estate appraisal companies, which are included in the list to provide valuation service by the CMB. Within the credit risk mitigation techniques, major collaterals that can be used by the Parent Bank are financial collaterals (Treasury Bills, Government Bonds, Cash, Deposit Pledges, Gold, Stock Pledges), guarantees and mortgages. As of 31 December 2012, while guarantees and mortgages are used as credit risk mitigation technique, credit derivatives are not used. As of 31 December 2012, risk amounts which credit risk mitigation techniques are used are shown below the table according to risk types.

Collaterals which are grouped according to risk types

Risk Types	**Amount (*)**	**Financial Collaterals**	**Other / Physical Collaterals**	**Guarantees and credit derivatives**
Contingent and Non-Contingent Claims on Sovereigns	3.433.261	830.423	-	-
Contingent and Non-Contingent Claims on Regional Governments and Local Authorities	3.000	-	-	-
Contingent and Non-Contingent Claims on Administrative Units and Non-commercial Enterprise	26.419	4.632	-	-
Contingent and Non-Contingent Claims on Multilateral Development Banks	-	-	-	-
Contingent and Non-Contingent Claims on International Organizations	-	-	-	-
Contingent and Non-Contingent Claims on Banks and Capital Market Intermediary	2.599.335	166.497	-	-
Contingent and Non-Contingent Claims on Corporates	9.072.669	74.212	-	24.756
Contingent and Non-Contingent Claims Included in the Regulatory Retail Portfolios	236.926	79.675	-	-
Contingent and Non-Contingent Claims Secured by Real Estate Property	1.078	-	1.078	-
Past Due Loans	-	-	-	-
Higher-Risk Categories Defined by Agency	16	-	-	-
Securities Secured by Mortgage	-	-	-	-
Securitization Exposures	-	-	-	-
Short-Term Claims on Banks and Corporate	-	-	-	-
Undertakings for Collective Investments in Transferable Securities	205.611	104.934	-	-
Other Claims	342.485	-	-	-
Total	**15.920.800**	**1.260.373**	**1.078**	**24.756**

(*)Includes risk amounts before the effect of credit risk mitigation.

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

X. Explanations related to consolidated credit risk mitigation techniques (continued)

Main guarantors and their credibility

Main Guarantors (*)	Fitch Rating
Yapı ve Kredi Bankası A.Ş.	BBB
Denizbank A.Ş.	BBB-
T.Garanti Bankası A.Ş.	BBB
T.İş Bankası A.Ş.	BBB
Tekstil Bankası A.Ş.	B+
Türkiye Halk Bankası A.Ş.	BBB-
TC Ziraat Bankası A.Ş.	BBB-
Şekerbank T.A.Ş.	BB-

(*) Guarantors have risk mitigation effect on 31 December 2012 capital adequacy computation.

XI. Explanations related to consolidated risk management objective and policies

The purpose of the risk management system is to provide identifying, measuring, reporting, monitoring and controlling the risk exposure on both unconsolidated and consolidated basis, through the policies determined related to controlling the risk-return structure of future cash flows of the Parent Bank and observing, controlling, changing if needed, application procedures, limits and policies of Parent Bank and determine the objectives to be achieved through the internal capital adequacy assessment process. In this context, “TSKB Risk Management Policies” and “TSKB Capital Adequacy Policies” are prepared and has become effective following the approval of the Board of Directors.

The Board of Directors of the Parent Bank determine and regularly review the risk level that the Bank is willing to bear to achieve its objectives, considering the risk capacity of Parent Bank.

Risk management process organized within the framework of risk management regulations and served to create a common risk culture throughout the Parent Bank, is in a structure that these risks are described in line with the international regulations and are measuring, analyzing, following, monitoring and reporting within this framework. Within the framework of the mentioned structure, Parent Bank’s Risk Management, continues to activities depending on the Audit Committee, which is established to help the audit and monitoring activities of the Board of Directors in accordance with Banking Law No: 5411 and “Regulation on Internal Systems of Banks” communiqué of Banking Regulation and Supervision Agency. Risk Management is responsible for preparing risk management strategies and policies followed by the Parent Bank, implementation, identification, measurement, monitoring, analysis, evaluation and reporting of risk management system activities.

Risk Management monitors the compliance of the risks in line with the Parent Bank’s policies and standards and limits, and determines violations, analyzes the size of the risk by developing various scenarios, develops and integrates systems providing measuring, monitoring and reporting the risks.

Within the scope of “TSKB Risk Management Policies” the Parent Bank is mainly exposed to credit risk, market risk, operational risk, currency risk, interest rate risk and liquidity risk.

Credit risk management policy

Credit risk is the possibility of incurring losses due to the credit customer or the counterparty, with whom the Bank has made an agreement with, does not fulfil its obligations appropriately or is not able to meet these obligations.

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Credit risk management policy (continued)

At Parent Bank, the purpose of credit risk management is to maximize the risk adjusted return of the Bank by managing the risks that the Bank may expose in line with the right parameters in a proactive approach. Although the largest and most visible source for credit risk is the loans that the Bank grants, other banking services regarding the counterparty risk also bear credit risk. In this context, all of the banking activities are assessed within the scope of credit risk.

Credit risk is measured and managed considering the maturity structure of the credit, contractual provisions of the credit and financial conditions, the risk profile structure until the end of the maturity parallel with the possible market conditions, guarantees and collaterals, internal risk ratings and the possible changes in the process of risk exposure, the concentrations (a single company, associated group of companies, industry, country, etc.) and compliance with limits determined by the Board of Directors in order to prevent these concentrations. For measuring credit risk, Internal Rating-Based Model is used in order to monitor, control and provide early warning for credit risk of the Parent Bank.

Maximum effort is expended for the fact that the limits and policies of the external and internal agreements are not so far from the limits and policies of the Parent Bank. The articles in the agreements are compelling even if they are different from existing Bank policies.

In credit risk mitigation policies and procedures, it is considered whether the total amount of credit risk mitigation tool should be taken into account is appropriate or not, also it is controlled whether the protection provided by the credit risk mitigation instruments is in compliance with the capital adequacy level. Parent Bank's Risk Management actively involved in the measurement, analysis and monitoring process of credit risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with credit risk by the Parent Bank's Risk Management.

Market risk management policy and currency risk management policy

Market risk is the possibility of loss that the Parent Bank may face, in the trading book portfolio and in its on-and off-balance sheet positions arising from movements in market prices. Interest rates, foreign exchange rates, equity and commodity prices are the main market risk factors. The purpose of market risk management is to maximize the risk adjusted return of the Parent Bank by managing the risks that the Bank may expose in line with the right parameters in a proactive approach. Market risk is managed by using consistent risk measurement criteria such as fluctuation level of interest rate and/or price fluctuations and Value-at-Risk (VaR) Methods calculations, by establishing proper procedures for performing such controls and observing compliance with determined risk limits, by investigating sources of risk, learning risk and providing consistent information related with market risk to level of organizations within organization structure.

Interest rates, foreign exchange rates, equity and commodity prices are the main market risk factors and in order to control these risks vigorously and it is essential that money and capital market transactions should be "well-diversified" considering the level of risk created in terms of parameters such as maturity, currency, interest rate and other similar parameters. In addition, credit worthiness of issuers of financial instruments creating market risk is strongly taken into account. In the calculation of the market risk, the Parent Bank uses two basic approaches, BRSA Standard Method and Value at Risk (VaR) approach. The accuracy of the VaR model is sustained by applying the retrospective tests (back testing). The test mentioned is based on the comparison of calculated Value at Risk and actual losses. In addition stress tests are applied to determine the effects of the events whose probability of occurrence is low; however, loss level is high on Value at Risk. Currency risk management is measured and monitored by using the VaR model.

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Market risk management policy and currency risk management policy (continued)

Parent Bank's Risk Management actively involved in measurement, analysis and monitoring process of market risk and currency risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with market risk by the Parent Bank's Risk Management.

Operational risk management policy

Operational risk is defined as the risk of loss due to the insufficiency of the processes, the people and the systems or defects or errors on them and external events, and compliance with laws and ethical standards are also included in this definition. These risks are managed by fulfilling special controls of the basic functional areas of the Parent Bank's operations, establishing mechanism distributing appropriate internal audit system and authorization required by this system within the Parent Bank and by applying detailed testing and control of the Parent Bank's all operating systems and by providing full harmony between internal and external systems and opportunity of independent data backup facility.

The Parent Bank applies the principles of separation of duties and distribution of functions in order to reduce the risk of deliberate actions, manipulations or errors. The minimum functions that have to be separated are identified as (i) starting the process (ii) authorisation and approving, (iii) recording the process (iv) confirming the process, (v) safe custody services, (vi) monitoring and auditing, (vii) developing IT systems and activities for daily operations. The transaction information has to be recorded to the system by using IT applications at once the transactions have been completed. Measurement of operational risks carried out by the implementation of Basel II "Basic Indicator Approach" methods. Parent Bank's Risk Management actively involved in the measurement, analysis and monitoring process of operational risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with operational risk by the Parent Bank's Risk Management.

Structural interest rate risk management policy

Structural interest rate risk is the risk of possible changes in interest rates affecting the capital of bank due to re-pricing period of interest bearing assets and liabilities banking books of the Bank and the differences at interest structuring. Structural interest rate risk is managed by providing consistent information related to structural interest rate risk to all the organization stages by using the risk measurement and criteria like the level of fluctuation in interest rates, interest shock and stress test calculations. Maturity mismatches concerning the repricing in predetermined buckets and currency mismatches of asset and liabilities are monitored and measured. Parent Bank manages the interest rate risk by being aware of that it threats the income, capital, liquidity and reputation of the Bank and it comprises of repricing risk, yield curve risk, basis risk, spread risk and option risk. Parent Bank's Risk Management actively involved in the measurement, analysis and monitoring process of structural interest rate risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with interest rate risk by the Risk Management.

Liquidity risk management policy

Liquidity risk is the risk of not meeting the balance sheet and off-balance sheet items on time. Liquidity risk is also the possibility of loss that the Bank may face, when there is not sufficient cash or cash inflow to meet the cash outflow in full and in time. There are two risks as funding liquidity risk in capital markets and purchase/ sales operations and market liquidity risk in which funding liquidity risk is the risk that investment and funding requirements cannot be met on time or at a reasonable cost due to the incompatibilities in cash flows.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

XI. Explanations related to consolidated risk management objective and policies (continued)

Liquidity risk management policy (continued)

The market liquidity risk is that no long position can be taken on time or at a reasonable cost due to the markets are not so deep, disruption and the bank cannot enter the markets easily.

It is essential to evaluate the diversification of opportunities on the basis of maturities with maximum extent in order to ensure the efficiency of liquidity management and maintain a sustainable situation. In liquidity risk management, a portfolio structure matched with the functions of generating profit from portfolio and market risk management and risk-return trade-off is constantly monitored without compromising of liquidity requirements.

Parent Bank’s Risk Management actively involved in the measurement, analysis and monitoring process of liquidity risk and regular reporting is provided to the Board of Directors, Audit Committee, top management and other departments related with liquidity risk by the Risk Management.

XII. Explanations related to presentation of financial assets and liabilities at fair value

The table below shows the carrying and fair values of the financial assets and liabilities in the consolidated financial statements of the Group.

	Carrying Value		Fair Value	
	Current Period	**Prior Period**	**Current Period**	**Prior Period**
Financial Assets	**10.146.187**	**9.273.785**	**10.201.695**	**9.326.490**
Money Market Placements	199	109.365	199	109.365
Banks	440.075	425.226	440.075	425.226
Available-For-Sale Financial Assets	2.882.262	2.316.883	2.882.262	2.316.883
Held-To-Maturity Investments	-	126.955	-	132.610
Loans (*)	6.823.651	6.295.356	6.879.159	6.342.406
Financial Liabilities	**7.231.560**	**7.029.195**	**7.231.560**	**7.029.195**
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds Provided From Other Financial Institutions	7.118.730	6.880.535	7.118.730	6.880.535
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	112.830	148.660	112.830	148.660

(*)Loans include financial lease receivables.

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

i- For the fair value calculation of loans, the prevailing interest rates as of the reporting date were used.

ii- For the fair value calculation of the balances with banks, the prevailing interest rates as of the reporting date were used.

iii- For the fair value calculation of held-to-maturity investments, quoted prices as of the reporting date were used.

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

SECTION FOUR (Continued)

INFORMATION ON FINANCIAL STRUCTURE (Continued)

XII. Explanations related to presentation of financial assets and liabilities by fair value: (continued)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is recorded on quoted market prices, those involving valuation techniques where all model inputs are observable in the market and, those where the valuation techniques involves the use of non observable inputs.

The table below analyses financial instruments carried at fair value, by valuation method.

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Current Period	Level I	Level II	Level III
Financial Assets			
Financial Assets held for Trading	17.926	23.243	-
Financial Assets Available For Sale	2.200.145	660.362	21.755
Financial Liabilities			
Derivative Financial Liabilities Held For Trading	-	20.997	-

Prior Period	Level I	Level II	Level III
Financial Assets			
Financial Assets held for Trading	104.972	45.353	-
Financial Assets Available For Sale	1.353.548	947.351	21.756
Financial Liabilities			
Derivative Financial Liabilities Held For Trading	-	48.743	-

XIII. Explanations related to transactions made on behalf of others and fiduciary transactions

The Parent Bank performs trading transactions on behalf of its customers, and gives custody, administration and consultancy services. The Parent Bank does not deal with fiduciary transactions.

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

SECTION FIVE

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS

I. Explanations and disclosures related to the consolidated assets

1.a Information on cash and balances with the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Cash in TL/Foreign Currency	137	113	190	157
Balances with the Central Bank of Turkey	25.328	107.088	5.267	115.495
Other	-	-	-	-
Total	**25.465**	**107.201**	**5.457**	**115.652**

1.b Information related to the account of the Central Bank of Turkey:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Unrestricted demand deposits	25.328	2.470	5.267	2.586
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	-	-	-
Other (*)	-	104.618	-	112.909
Total	**25.328**	**107.088**	**5.267**	**115.495**

(*)Deposits at Central Bank of Turkey held as reserve requirement.

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

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

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

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

2.a Information on financial assets at fair value through profit and loss

2.a.1 Trading securities:

2.a.1.a Trading securities given as collateral or blocked:

As of the reporting date, the Group's trading securities given as collateral or blocked amounted to TL 7.973 (31 December 2011: TL 6.905).

2.a.1.b Trading securities subject to repurchase agreements:

As of the reporting date, the Group has securities subject to repurchase agreements amounted to TL 199 (31 December 2011: TL 273).

2.a.2 Information on financial assets designated at fair value through profit and loss:

2.a.2.a Information on financial assets designated at fair value through profit and loss given as collateral or blocked:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss given as collateral or blocked (31 December 2011: None).

2.a.2.b Financial assets designated at fair value through profit and loss subject to repurchase agreements:

As of the reporting date, the Group has no financial assets designated at fair value through profit and loss subject to repurchase agreements (31 December 2011: None).

2.b Positive differences related to derivative financial assets held-for-trading:

Derivative instruments held for trading	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	1.792	1.188	6.507	7.458
Swap Transactions	4.351	15.479	5.094	8.354
Futures Transactions	-	-	-	-
Options	-	433	-	17.940
Other	-	-	-	-
Total	**6.143**	**17.100**	**11.601**	**33.752**

3. Information on banks and foreign bank accounts

3.a Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	377.261	28.899	19.045	363.000
Foreign	-	33.915	-	43.181
Branches and head office abroad	-	-	-	-
Total	**377.261**	**62.814**	**19.045**	**406.181**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

3. Information on banks and foreign bank accounts (continued)

3.b Information on banks and foreign bank accounts:

	Unrestricted Amount		Restricted Amount	
	Current Period	**Prior Period**	**Current Period**	**Prior Period**
EU Countries	2.839	6.207	-	-
USA, Canada	30.950	35.208	-	-
OECD Countries (*)	126	1.652	-	-
Off-Shore Banking Regions	-	114	-	-
Other	-	-	-	-
Total	**33.915**	**43.181**	**-**	**-**

(*)OECD countries other than European Union countries, USA and Canada.

4. Information on financial assets available-for-sale

4.a.1 Financial assets available-for-sale subject to repurchase agreements:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Government bonds	1.021.262	-	642.410	55.757
Treasury bills	-	-	-	-
Other public sector debt securities	-	293.720	-	144.927
Bank bonds and bank guaranteed bonds	-	-	-	-
Asset backed securities	-	-	-	-
Other	-	-	-	-
Total	**1.021.262**	**293.720**	**642.410**	**200.684**

4.a.2 Information on financial assets available-for-sale given as collateral or blocked:

All financial assets available for sale given as collateral comprise of financial assets are issued by the Turkish Treasury. The carrying value of those assets is TL 463.362 (31 December 2011: TL 523.961).

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Share certificates	-	-	-	-
Bond, Treasury bill and similar investment securities	463.362	-	444.429	79.532
Other	-	-	-	-
Total	**463.362**	**-**	**444.429**	**79.532**

4.b Major types of available for sale financial assets:

Available for sale financial assets comprise government bonds 73,81%, Eurobonds 11,89%, and shares and other securities 14,30% (31 December 2011: government bonds 72,29%, Eurobonds 13,89% and shares and other securities 13,82%).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

4. Information on financial assets available-for-sale (continued)

4.c Information on financial assets available-for-sale:

	Current Period	Prior Period
Debt securities	2.846.275	2.304.272
Quoted on a stock exchange	2.396.908	1.791.047
Unquoted	449.367	513.225
Share certificates	47.418	38.639
Quoted on a stock exchange	16.872	8.093
Unquoted	30.546	30.546
Impairment provision(-)	(11.431)	(26.028)
Total	**2.882.262**	**2.316.883**

Net book value of unquoted available for sale share certificates is TL 21.755 (31 December 2011: TL 21.756).

5. Information on loans

5.a Information on all types of loans and advances given to shareholders and employees of the Parent Bank:

	Current Period		Prior Period	
	Cash Loans	Non-Cash Loans	Cash Loans	Non-Cash Loans
Direct loans granted to shareholders	107.017	117.413	57.506	117.413
Corporate shareholders	107.017	117.413	57.506	117.413
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	168	-	182	-
Total	**107.185**	**117.413**	**57.688**	**117.413**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans: (*):

Cash Loans	Standard Loans and Other Receivables			Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables (Total)	Amendments on Conditions of Contract		Loans and Other Receivables (Total)	Amendments on Conditions of Contract	
		Amendments Related to the Extension of the Payment Plan	Other		Amendments Related to the Extension of the Payment Plan	Other
Non-specialized loans	6.785.248	-	-	28.971	-	-
Corporation loans	1.765.771	-	-	11.418	-	-
Export loans	112.795	-	-	-	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	845.855	-	-	-	-	-
Consumer loans	168	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Other	4.060.659	-	-	17.553	-	-
Specialized loans	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	**6.785.248**		**-**	**28.971**	**-**	**-**

(*)The Parent Bank's finance lease receivables are TL 9.432 (31 December 2011: TL 28.400) and TL 995 (31 December 2011: TL 3.748) of the finance lease receivables are closely monitored.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.b Information on the first and second group loans and other receivables including restructured or rescheduled loans: (continued):

Number of amendments related to the extension of the payment plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
Extended for 1 or 2 times	-	-
Extended for 3,4 or 5 times	-	-
Extended for more than 5 times	-	-

The time extended via the amendment on payment plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0-6 Months	-	-
6 Months - 12 Months	-	-
1-2 Years	-	-
2-5 Years	-	-
5 Years and Over	-	-

5.c Maturity analysis of cash loans:

	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables (Total)	Amendments on Conditions of Contract	Loans and Other Receivables (Total)	Amendments on Conditions of Contract
Short-term loans and other receivables	329.316	-	6.330	-
Non-specialized loans	329.316	-	6.330	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-
Medium and Long-term loans	6.455.932	-	22.641	-
Non-specialized loans	6.455.932	-	22.641	-
Specialized loans	-	-	-	-
Other receivables	-	-	-	-

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.d Information on consumer loans, individual credit cards, personnel loans and credit cards given to personnel:

	Short Term	Medium and Long Term	Total
Consumer Loans-TL	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans –Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Individual Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Loans- TL	147	21	168
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	147	21	168
Personnel Loans- Indexed to FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Housing Loans	-	-	-
Car Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards- TL	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Personnel Credit Cards-FC	-	-	-
With Instalments	-	-	-
Without Instalments	-	-	-
Overdraft Accounts- TL (Real Persons)	-	-	-
Overdraft Accounts-FC (Real Persons)	-	-	-
Total	**147**	**21**	**168**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.e Information on commercial loans with instalments and corporate credit cards:

The Parent Bank has not granted any commercial loans with instalments and corporate credit cards as of the reporting date (31 December 2011: None).

5.f Loans according to borrowers:

	Current Period	Prior Period
Public	-	-
Private	6.814.219	6.266.956
Total	**6.814.219**	**6.266.956**

5.g Domestic and foreign loans:

	Current Period	Prior Period
Domestic Loans	6.789.024	6.245.491
Foreign Loans	25.195	21.465
Total	**6.814.219**	**6.266.956**

5.h Loans granted to subsidiaries and associates:

	Current Period	Prior Period
Direct loans granted to subsidiaries and associates	83.374	85.465
Indirect loans granted to subsidiaries and associates	-	-
Total	**83.374**	**85.465**

5.i Specific provisions provided against loans:

	Current Period	Prior Period
Loans and receivables with limited collectability	59	5.313
Loans and receivables with doubtful collectability	5.316	5.978
Uncollectible loans and receivables	10.249	16.407
Total	**15.624**	**27.698**

The Parent Bank allocates 100 % provision for all non-performing loans regardless of the collaterals.

5.j Information on non-performing loans (net):

5.j.1 Information on loans and other receivables restructured or rescheduled from non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Current Period			
(Gross amounts before provisions)	-	5.315	4.420
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	5.315	4.420
Prior Period			
(Gross amounts before provisions)	-	5.977	4.576
Restructured loans and other receivables	-	-	-
Rescheduled loans and other receivables	-	5.977	4.576

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net) (continued):

5.j.2 Movement of non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Prior Period End Balance	**5.313**	**5.978**	**16.407**
Additions (+)	59	1	553
Transfers from Other Categories of Non-performing Loans (+)	-	-	-
Transfers to Other Categories of Non-performing Loans (-)	-	-	-
Collections (-)(*)	(5.313)	(663)	(6.681)
Write-offs (-)	-	-	(30)
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	(30)
Current Period Ending Balance	**59**	**5.316**	**10.249**
Specific Provisions (-)	(59)	(5.316)	(10.249)
Net Balance on Balance Sheet	-	-	-

(*)Transfer to 2nd Group Receivables amounting to TL 4.443 is included in "Collections" line.

5.j.3 Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful Collectability	Uncollectible Loans and Receivables
Current Period			
Period End Balance	56	5.314	82
Specific Provision (-)	(56)	(5.314)	(82)
Net Balance on Balance Sheet	-	-	-
Prior Period			
Period End Balance	3.306	5.977	5.426
Specific Provision (-)	(3.306)	(5.977)	(5.426)
Net Balance on Balance Sheet	-	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.j Information on non-performing loans (net) (continued):

5.j.4 Information regarding gross and net amounts of non-performing loans with respect to user groups:

	III. Group	IV. Group	V. Group
	Loans and Receivables With Limited Collectability	Loans and Receivables With Doubtful	Uncollectible Loans and Receivables
Current Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	59	5.316	9.836
Specific Provision Amount (-)	(59)	(5.316)	(9.836)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	413
Specific Provision Amount (-)	-	-	(413)
Other Loans and Receivables (Net)	-	-	-
Prior Period (Net)			
Loans to Real Persons and Legal Entities (Gross)	5.313	5.978	10.522
Specific Provision Amount (-)	(5.313)	(5.978)	(10.522)
Loans to Real Persons and Legal Entities (Net)	-	-	-
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	5.885
Specific Provision Amount (-)	-	-	(5.885)
Other Loans and Receivables (Net)	-	-	-

5.k Main principles of liquidating non performing loans and receivables:

If there are collaterals received complying Article 9 of the Communiqué regarding “Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves”, these collaterals are converted into cash immediately using either administrative or legal procedures in order to collect those receivables. In cases of no collaterals, several financial investigations are made to determine whether any property holdings are subsequently acquired by applying legal procedures, even if there is evidence of insolvency for the debtor. Before and after the beginning of the liquidation process; the Parent Bank management makes investigations on the financial data of the debtor companies. As a result of these investigations, if the Parent Bank management agrees that the companies show any indication of operating on an ongoing basis and probably are going to have contributions in the economical environment in the future; the Parent Bank management tries to make the collection through rescheduling the payment terms.

5.l Explanations about the write-off policies from the assets:

If there is no collateral against uncollectible loans and receivables and if the receivable amount is less than the cost; tax, fee, and other expenses, made for the legal actions, the receivable is written off from the assets upon the request of the Credit Monitoring Department and the approval of the General Management.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.l Explanations about the write-off policies from the assets (continued)

However, if there is a collateral against the receivable and after all the costs of legal actions are fulfilled, and if there is still a part of receivables not collected, the receivables are written off after getting of pledge shortage and evidence of insolvency subsequently.

5.m Other explanations and disclosures:

Current Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired loans	5.165.193	1.613.950	168	33.923	6.813.234
Past due not impaired loans	-	985	-	-	985
Individually impaired loans	7.288	6.900	-	1.436	15.624
Total	**5.172.481**	**1.621.835**	**168**	**35.359**	**6.829.843**
Less: allowance for individually impaired loans	(7.288)	(6.900)	-	(1.436)	(15.624)
Total allowance for impairment	(7.288)	(6.900)	-	(1.436)	(15.624)
Total Net	**5.165.193**	**1.614.935**	**168**	**33.923**	**6.814.219**

Prior Period	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired loans	5.375.507	870.370	182	19.721	6.265.780
Past due not impaired loans	1.176	-	-	-	1.176
Individually impaired loans	13.014	13.236	-	1.448	27.698
Total	**5.389.697**	**883.606**	**182**	**21.169**	**6.294.654**
Less: allowance for individually impaired loans	(13.014)	(13.236)	-	(1.448)	(27.698)
Total allowance for impairment	(13.014)	(13.236)	-	(1.448)	(27.698)
Total Net	**5.376.683**	**870.370**	**182**	**19.721**	**6.266.956**

A reconciliation of the allowance for impairment losses and advances by classes is as follows:

	Corporate	SME	Consumer	Other	Total
At 1 January 2012	**(13.014)**	**(13.236)**	**-**	**(1.448)**	**(27.698)**
Charge for the year	(125)	(62)	-	(426)	(613)
Recoveries (*)	5.851	6.398	-	408	12.657
Amounts written off	-	-	-	30	30
Interest accrued on impaired loans and other receivables	-	-	-	-	-
At 31 December 2012	**(7.288)**	**(6.900)**	**-**	**(1.436)**	**(15.624)**
	Corporate	**SME**	**Consumer**	**Other**	**Total**
At 1 January 2011	**(14.860)**	**(10.649)**	**-**	**(976)**	**(26.485)**
Charge for the year	(754)	(6.802)	-	(647)	(8.203)
Recoveries	2.600	4.215	-	175	6.990
Amounts written off	-	-	-	-	-
Interest accrued on impaired loans and other receivables	-	-	-	-	-
At 31 December 2011	**(13.014)**	**(13.236)**	**-**	**(1.448)**	**(27.698)**

(*)Transfer to 2nd Group Receivables amounting to TL 4.443 is included in "Recoveries" line.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.m Other explanations and disclosures (continued):

A breakdown of the allowance for impairment losses is given below;

Current Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(7.288)	(6.900)	-	(1.436)	(15.624)
Gross amount of loans, individually determined to be impaired (before deducting any individually assessed impairment allowance)	7.288	6.900	-	1.436	15.624

Prior Period	Corporate	SME	Consumer	Other	Total
Individual impairment	(13.014)	(13.236)	-	(1.448)	(27.698)
Gross amount of loans, individually determined to be impaired (before deducting any individually assessed impairment allowance)	13.014	13.236	-	1.448	27.698

Movements in the allowance for impairment losses and advances are as follows:

	Current Period	Prior Period
At 1 January	**27.698**	**26.485**
Charge for the year	613	8.203
Recoveries	(12.657)	(6.990)
Amounts written off	(30)	-
Interest accrued on impaired loans and other receivables	-	-
At 31 December	**15.624**	**27.698**
Individual impairment	(15.624)	(27.698)
Gross amount of loans, individually determined to be impaired (before deducting any individually assessed impairment allowance)	15.624	27.698

Aging analysis of past due but not impaired financial assets per class of financial statements:

Current Period	Less than 30 Days	31- 60 Days	61- 90 Days	Over 91 Days	Total
Loans and Receivables					
Corporate Loans	-	-	-	-	-
SME Loans	985	-	-	-	985
Consumer Loans	-	-	-	-	-
Other	-	-	-	-	-
Total	**985**	**-**	**-**	**-**	**985**

Prior Period	Less than 30 Days	31- 60 Days	61- 90 Days	Over 91 Days	Total
Loans and Receivables					
Corporate Loans	1.176	-	-	-	1.176
SME Loans	-	-	-	-	-
Consumer Loans	-	-	-	-	-
Other	1	-	-	-	1
Total	**1.177**	**-**	**-**	**-**	**1.177**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

5. Information on loans (continued)

5.m Other explanations and disclosures (continued):

Of the total aggregate amount of gross past due but not yet impaired loans and other receivables, the fair value of collaterals, capped with the respective outstanding loan balance as of are shown below:

	Current Period	Prior Period
Residential, commercial and industrial property	985	-
Financial assets	-	1.163
Other (bailment, pledge and charge on ship and vehicle)	-	-
Total	**985**	**1.163**

Loans and other receivables amounting to 6.184.223 have floating interest rates (31 December 2011: TL 5.605.242) and the remaining TL 629.996 have fixed interest rates (31 December 2011: TL 661.714).

6. Information on held-to-maturity investments

6.a Information on held-to-maturity investments as collateral or blocked:

6.a.1 As of the reporting date, the Group has no collateral or blocked held-to-maturity investments (31 December 2011: None).

6.a.2 As of the reporting date, the Group has no investment securities held-to-maturity subject to repurchase transactions (31 December 2011: TL 124.046).

6.b Information on investment securities held-to-maturity:

As of the reporting date, the Group has no investment securities held-to-maturity (31 December 2011: TL 126.955).

6.c Information on investment securities held-to-maturity:

	Current Period	Prior Period
Debt Instrument	-	126.955
Quoted	-	126.955
Unquoted	-	-
Impairment Provision (-)	-	-
Total	-	**126.955**

6.d Movement of held to maturity investments:

	Current Period	Prior Period
Beginning balance	126.955	278.760
Foreign currency differences on monetary assets	-	-
Purchases during year	-	-
Disposals through sales and redemptions (*)	(126.955)	(182.973)
Impairment provision (-)	-	-
Closing Balance	-	95.787
Interest and Income Accruals and Discount	-	31.168
Total	**-**	**126.955**

(*) The amount comprises redemption of held to maturity investments on 15 February 2012 (31 December 2011: TL 177.795 of the amount comprises of the Parent Bank's held to maturity investment that was redeemed on 11 May 2011 and on 3 August 2011).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net):

7.a.1 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated associates and reason of unconsolidating:

Unconsolidated non-financial associates are valued at cost.

7.a.2 Information on unconsolidated associates:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	Terme Metal Sanayi ve Ticaret A.Ş. (Terme)	Istanbul/ Turkey	17,83	18,76
2	Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. (Ege Tarım)	Izmir/ Turkey	10,00	20,00

Non-financial associates, as above, are not consolidated in accordance with the Communiqué on "Preparing Consolidated Financial Statements of the Banks".

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
Terme (1)	18.440	3.734	647	258	-	230	651	-
Ege Tarım (2)	11.215	10.799	8.894	182	-	(353)	83	-

(1) Represents un-reviewed 30 September 2012 financial statements. Prior year profit/loss is obtained from un-reviewed 30 September 2011 financial statements.
(2) Represents un-reviewed 30 September 2012 financial statements. Prior year profit/loss is obtained from un-reviewed 30 September 2011 financial statements.

Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

Information on associates purchased in the current period

The Parent Bank has obtained bonus shares of Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. amounting to TL 15 with capital increase of TL 152.

In accordance with the General Assembly of Ege Tarım Ürünleri Lisanlı Depoculuk A.Ş. dated 19 October 2012, Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. increased its capital to TL 11.152 by transferring TL 152 from its retained earnings to its capital. In the meeting of the General Assembly of Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. held on 22 November 2012; it has been resolved that, paid-in capital of the Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş. will be increased from TL 11.152 to TL 13.552 paid in cash and the Parent Bank has made a capital commitment with the shares of 10% amounting to TL 240 and has paid the TL 120 TL and the remaining TL 120 will be paid by the Parent Bank on 31 March 2013.

7.a.3 Information on the consolidated associates:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	İş Factoring Finasman Hizmetleri A.Ş. (İş Factoring)	Istanbul/Turkey	21,75	100,00
2	İş Finansal Kiralama A.Ş. (İş Finansal)	Istanbul/Turkey	28,56	57,36
3	İş Girişim Sermayesi Yatırım Ortaklığı A.Ş (İş Girişim)	Istanbul/Turkey	16,67	57,67

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

7. Information on investments in associates (net) (continued)

7.a.3 Information on the consolidated associates (continued):

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
İş Factoring (1)	1.041.260	59.723	630	52.332	50	4.574	8.236	-
İş Finansal (2)	2.820.322	565.798	2.214	158.051	1.247	40.805	52.473	113.320
İş Girişim (3)	232.587	204.415	9.067	-	-	34.245	37.995	24.730

(1) Represents un-audited 31 December 2012 financial statements. Prior year profit/loss is obtained from audited 31 December 2011 financial statements.
(2) Represents audited 31 December 2012 consolidated financial statements. Prior year profit/loss is obtained from audited 31 December 2011 consolidated financial statements. Fair value is presented as of 31 December 2012.
(3) Represents un-reviewed 30 September 2012 consolidated financial statements. Prior year profit/loss is obtained from un-reviewed 30 September 2011 consolidated financial statements. Fair value is presented as of 31 December 2012.

	Current Period	Prior Period
Balance at the Beginning of the Period	**190.472**	**173.600**
Movements During the Period	19.574	16.872
Purchases	-	-
Bonus Shares Received	-	-
Current Year Share of Profit	20.271	20.917
Sales	-	(986)
Revaluation Increase	(697)	-
Provision for Impairment	-	(3.059)
Balance at the End of the Period	**210.046**	**190.472**
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

Information on associates disposed in the current period

In the current period the Group has not disposed any associates.

Information on associates purchased in the current period

In the current period, the Group has not purchased any associates. The Parent Bank has obtained bonus shares of İş Finansal Kiralama A.Ş. amounting to TL 14.280 with capital increase of TL 50.000 and has obtained bonus shares of İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. amounting to TL 1.260 with capital increase of TL 7.560.

7.a.4 Sectoral information of consolidated associates and the related carrying amounts in the legal books:

	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	26.348	23.370
Leasing Companies	149.441	138.305
Financial Service Companies	-	-
Other Associates	34.257	28.797

7.a.5 Information on consolidated associates quoted on stock market:

	Current Period	Prior Period
Associates Quoted on Domestic Stock Markets	183.698	167.102
Associates Quoted on Foreign Stock Markets	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net)

8.a.1 Information related to equity component of subsidiaries:

	YFMEND (*)	**TSKGYO (*)**
	Current Period	**Current Period**
CORE CAPITAL		
Paid-in Capital	61.000	150.000
Inflation Adjustment to Share Capital	775	-
Share Premium	-	593
Legal Reserves	4.598	5.721
Current and Prior Years' Profit / Loss	827	79.513
Leasehold Improvements (-)	675	-
Intangible Assets (-)	394	3
Total Core Capital	**66.131**	**235.824**
SUPPLEMENTARY CAPITAL	**80**	**-**
CAPITAL	**66.211**	**235.824**
NET AVAILABLE CAPITAL	**66.211**	**235.824**

(*)The information is obtained from financial statements subject to consolidation as of 31December 2012.

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry. Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items. Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves. Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the third clause of first and second paragraph of 466 and 467 articles of Turkish Commercial Code.

There is no internal capital adequacy assessment approach for the subsidiaries.

8.a.2 As per Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards unconsolidated subsidiaries and reason of unconsolidating and needed capital if they are subject to capital requirement:

TSKB Gayrimenkul Değerleme A.Ş., TSKB Gayrimenkul Danışmanlık A.Ş. are valued at cost and are not consolidated since they are not financial subsidiaries. Unconsolidated subsidiaries of the Parent Bank are not subject to capital requirement.

8.a.3 Information related to unconsolidated subsidiaries:

	Title	**Address (City/ Country)**	**Bank's share percentage-If different voting percentage (%)**	**Bank's risk group share percentage (%)**
1	TSKB Gayrimenkul Değerleme A.Ş. (TSKB GMD)	Istanbul /Türkiye	99,99	99,99
2	TSKB Gayrimenkul Danışmanlık A.Ş.(TGD A.Ş.)	Istanbul /Türkiye	46,58	100,00
3	Sürdürülebilir Danışmanlık A.Ş.	Istanbul /Türkiye	-	96,00

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.3 Information related to unconsolidated subsidiaries (consolidated):

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
TSKB GMD (1)	9.281	7.119	1.362	-	-	2.568	1.739	-
TGD A.Ş. (2)	574	517	34	-	-	(215)	32	-
SD A.Ş. (3)	322	309	18	25	-	33	(37)	-

(1) Represents un-audited 31 December 2012 financial statements. Prior year profit/loss is obtained from un-audited 31 December 2011 financial statements.
(2) Represents un-audited 31 December 2012 financial statements. Prior year profit/loss is obtained from un-audited 31 December 2011 financial statements.
(3) Represents un-audited 31 December 2012 financial statements. Prior year profit/loss is obtained from un-audited 31 December 2011 financial statements.

Subsidiaries disposed in the current period

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

Subsidiaries purchased in the current period

In the current period, the Parent Bank has not purchased any subsidiaries.

8.a.4 Information related to consolidated subsidiaries:

	Title	Address (City/ Country)	Bank's share percentage-If different voting percentage (%)	Bank's risk group share percentage (%)
1	Yatırım Finansman Menkul Değerler A.Ş.(YFMEN.DEĞ.)	Istanbul /Turkey	95,78	98,51
2	TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO)	Istanbul/Turkey	59,00	66,84

	Total Assets	Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit /Loss	Prior Period Profit/Loss	Fair Value
YF MEN.DEĞ. (1)	452.148	66.231	1.896	24.811	1.038	2.725	5.919	-
TSKB GYO (2)	364.374	235.144	328.125	1.589	-	17.048	(2.838)	68.145

(1) Represents audited 31 December 2012 financial statements. Prior year profit/loss is obtained from audited 31 December 2011 financial statements.
(2) Represents audited 31 December 2012 financial statements. Prior year profit/loss is obtained from audited 31 December 2011 financial statements. Fair value is presented as of 31 December 2012.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.4 Information related to consolidated subsidiaries (continued):

	Current Period	**Prior Period**
Balance at the Beginning of the Period	**195.434**	**187.772**
Movements During the Period	636	7.662
Purchases	-	-
Bonus Shares Obtained	7.184	7.662
Current Year Shares of Profit	-	-
Sales (*)	(6.548)	-
Revaluation Increase	-	-
Provision for Impairment	-	-
Balance At the End of the Period	**196.070**	**195.434**
Capital Commitments	-	-
Share Percentage at the End of the Period (%)	-	-

(*) As of 31 December 2012, TSKB Yatırım Ortaklığı A.Ş. is excluded from subsidiaries due to merger with İş Yatırım Ortaklığı A.Ş..Cost of TSKB Yatırım Ortaklığı A.Ş. is presented in "Sales" line.

According to the principles of consolidation accounting, the cost values of the consolidated subsidiaries have been eliminated from the accompanying consolidated financial statements.

Subsidiaries disposed in the current period

In the Board of Directors meeting of the subsidiary of the Parent Bank, TSKB Yatırım Ortaklığı Anonim Şirketi, held on 14 December 2011 numbered 230, it was decided to merge with İş Yatırım Ortaklığı Anonim Şirketi registered on Istanbul Trade Register Office with registration numbered 367835, within the Turkish Commercial Code 451 and 19 and 20th clauses of Corporate Tax Law numbered 5520. Management of TSKB Yatırım Ortaklığı A.Ş. is authorized for all of the required issues related with merger. According to expert studies and reports for merging of TSKB Yatırım Ortaklığı A.Ş and İş Yatırım Ortaklığı A.Ş., the share exchange rate was determined as 89,23%. Accordingly, 0,08923 kuruş shares of İş Yatırım Ortaklığı A.Ş. has given for every 0,01 kuruş nominal share of TSKB Yatırım Ortaklığı A.Ş.. After merger, the paid in capital of İş Yatırım Ortaklığı A.Ş. has been raised to 16.059.928.400 share, amounting to TL 160.599 and share of the Bank has become 7,25%. In the Group A Privileged Shareholders General Assembly of TSKB Yatırım Ortaklığı A.Ş. dated 29 June 2012, it was decided TSKB Yatırım Ortaklığı A.Ş. to merge with İş Yatırım Ortaklığı Anonim Şirketi within the Turkish Commercial Code 451 and 19 and 20th clauses and within Communiqué on Principles Regarding Mergers, Serial: 1, No:31 of Capital Market Board ("CMB"). "The merger agreement" has been registered by Istanbul Trade Registry Office on 16 July 2012 and has been published in the Trade Registry Gazette numbered 8116, dated 20 July 2012. In the Board of Directors meeting held on 26 December 2012, General Management was authorized for sale of Parent Bank's İş Yatırım Ortaklığı A.Ş. Group A shares with a rate of 1,43% and with a number of 2.297.411 of İş Yatırım Ortaklığı A.Ş.'s capital amounting to TL 160.599 to İş Yatırım Menkul Değerler A.Ş, in accordance with pricing principles of IMKB Wholesale Market Foundation and Operation Fundamentals Circular. Sales transaction occurred on 11 February 2013.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

8. Information related to subsidiaries (net) (continued)

8.a.4 Information related to consolidated subsidiaries (continued):

Subsidiaries disposed in the current period (continued)

TSKB Yatırım Ortaklığı Anonim Şirketi, merged with İş Yatırım Ortaklığı Anonim Şirketi by the dissolution of its legal personality and stock exchange transaction together with all of its assets, receivables, liabilities and obligations realized on 13 August 2012. In the Stock Exchange Board of Directors meeting held on 16 August 2012, due to dissolution of TSKB Yatırım Ortaklığı A.Ş. by the way of merger with İş Yatırım Ortaklığı Anonim Şirketi, TL 29.067,736 par value stocks of TSKB Yatırım Ortaklığı A.Ş. in stock exchange quote have expelled perpetually from quotation and stock market in accordance with (f) sub clause of article no.24 of Istanbul Stock Exchange Listing Regulations.

Subsidiaries purchased in the current period

In the current period, the Parent Bank has obtained bonus shares of Yatırım Finansman Menkul Değerler A.Ş., amounting to TL 7.184 with a capital increase of TL 7.500.

8.a.5 Sectoral information on consolidated subsidiaries and the related carrying amounts in the legal books:

Subsidiaries	**Current Period**	**Prior Period**
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	-	-
Financial Service Companies	-	-
Other Subsidiaries	196.070	195.434

8.a.6 Subsidiaries quoted on stock exchange:

As of 31 December 2012, the fair value of the Group's subsidiaries quoted on the stock exchange is TL 74.123 (31 December 2011: TL 57.749).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

9. Information related to entities under common control

TSKB GYO, one of the subsidiaries of the Parent Bank, established a joint venture with Bilici Yatırım Sanayi ve Ticaret A.Ş. in Adana under the name of Adana Otel Projesi Adi Ortaklığı ("Adana Hotel Project") on 26 May 2011. The main operations of Adana Otel Projesi Adi Ortaklığı is to start, execute and complete the hotel project which will be operated by Palmira Turizm Ticaret A.Ş. The capital structure of the joint venture is designated as 50% of participation for Bilici Yatırım Sanayi ve Ticaret AŞ and 50% of participation for TSKB GYO. The nominal paid-in capital of Adana Otel Projesi Adi Ortaklığı comprises 20.000 shares of TL 1 for each amounting to TL 20 in total. TSKB GYO has paid TL 10 in cash for the 50% ownership in Adana Otel Projesi Adi Ortaklığı.

	Total Assets	Equity	Total Fixed Assets	Interest Income	Securities Income	Current Year Profit /Loss	Prior Year Profit /Loss	Fair Value
Adana Otel Project (1)	10.548	(71)	9.025	-	-	(23)	(68)	-

1) Represents un-audited 31 December 2012 financial statements. Prior year profit/loss is obtained from un-audited 31 December 2011 financial statements.

10. Information on finance lease receivables (net)

10.a Maturities of investments on finance leases:

	Current Period		**Prior Period**	
	Gross	**Net**	**Gross**	**Net**
Less than 1 year	6.073	5.829	726	711
Between 1- 4 years	3.685	3.603	28.851	27.689
More than 4 years	-	-	-	-
Total	**9.758**	**9.432**	**29.577**	**28.400**

10.b The information on net investments in finance leases:

	Current Period	**Prior Period**
Gross investments in finance leases	**9.758**	**29.577**
Unearned revenue from finance leases (-)	(326)	(1.177)
Cancelled finance leases (-)	-	-
Net investments in finance leases	**9.432**	**28.400**

10.c Explanation with respect to finance lease agreements, the criteria used in determination of contingent rents, conditions for revisions or purchase options, updates of leasing amounts and the restrictions imposed by lease arrangements, whether arrays in repayment occur, whether the terms of the contract are renewed, if renewed, the renewal conditions, whether the renewal results any restrictions, and other important conditions of the leasing agreement:

Finance lease agreements are made in accordance with the related articles of the Financial Leasing Law No. 3226. There are no restructuring or restrictions having material effect on financial statements.

11. Information on derivative financial assets for hedging purposes

The Group has no derivative financial assets for hedging purposes as of the reporting date (31 December 2011: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

12. Information on tangible assets (net)

Current Period	Prior Period End	Additions	Disposals	Transfers	Current Period End
Cost					
Land and buildings (*)	39.433	551	(125)	-	39.859
Assets Held under Finance Leases	5.206	16	(101)	-	5.121
Vehicles	1.313	119	(138)	-	1.294
Assets for Resale	1.440	195	(255)	-	1.380
Other	18.028	1.602	(154)	-	19.476
Total Cost	**65.420**	**2.483**	**(773)**	**-**	**67.130**
Accumulated Depreciation					
Land and buildings (*)	(19.914)	(864)	-	-	(20.778)
Assets Held under Finance Leases	(4.798)	(219)	101	-	(4.916)
Vehicles	(784)	(217)	102	-	(899)
Assets for Resale	(5)	(9)	-	-	(14)
Other	(15.258)	(1.186)	154	-	(16.290)
Total Accumulated Depreciation	**(40.759)**	**(2.495)**	**357**	**-**	**(42.897)**
Impairment Provision					
Land and buildings (*)	-	-	-	-	-
Assets Held under Finance Leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets for Resale	(437)	(20)	10	-	(447)
Other	-	-	-	-	-
Total Impairment Provision	**(437)**	**(20)**	**10**	**-**	**(447)**
Net Book Value	**24.224**	**(32)**	**(406)**	**-**	**23.786**

(*) Land and buildings also include lands and buildings held under finance leases.

Prior Period	Prior Period End	Additions	Disposals	Transfers	Current Period End
Cost					
Land and buildings (*)	34.504	432	-	4.497	39.433
Assets Held under Finance Leases	5.003	-	-	203	5.206
Vehicles	1.369	-	(89)	33	1.313
Assets for Resale	17.222	363	(16.145)	-	1.440
Other	19.048	994	-	(2.014)	18.028
Total Cost	**77.146**	**1.789**	**(16.234)**	**2.719**	**65.420**
Accumulated Depreciation					
Land and buildings (*)	(24.014)	(814)	-	4.914	(19.914)
Assets Held under Finance Leases	(3.673)	(342)	-	(783)	(4.798)
Vehicles	(624)	(223)	85	(22)	(784)
Assets for Resale	(6.155)	(588)	6.738	-	(5)
Other	(14.225)	(1.033)	-	-	(15.258)
Total Accumulated Depreciation	**(48.691)**	**(3.000)**	**6.823**	**4.109**	**(40.759)**
Impairment Provision					
Land and buildings (*)	-	-	-	-	-
Assets Held under Finance Leases	-	-	-	-	-
Vehicles	-	-	-	-	-
Assets for Resale	(3.556)	(50)	3.169	-	(437)
Other	-	-	-	-	-
Total Impairment Provision	**(3.556)**	**(50)**	**3.169**	**-**	**(437)**
Net Book Value	**24.899**	**(1.261)**	**(6.242)**	**6.828**	**24.224**

(*)Land and buildings also include lands and buildings held under finance leases.

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

12. Information on tangible assets (net) (continued)

12.a If impairment amount on individual asset recorded or reversed in the current period is material for the overall financial statements:

12.a.1 Events and conditions for recording or reversing impairment:

The Parent Bank recorded 5% impairment provision per year for asset held for sale and tangible assets that are not depreciated.

12.a.2 Amount of recorded or reversed impairment in the financial statements:

The impairment amount recorded as at the reporting date is TL 20 and impairment reversed is TL 10 (31 December 2011: impairment recorded is TL 50, impairment reversed is TL 3.169).

12.b The impairment provision set or cancelled in the current period according to the asset groups not individually significant but materially effecting the overall financial statements, and the reason and conditions for this:

There is no impairment provision on individual asset set or cancelled in the current period, other than impairment on properties referred to above. (31 December 2011: None)

13. Information on intangible assets

13.a Useful lives and amortization rates used:

Tangible assets, purchased before 1 January 2005, are accounted for at their restated costs as of 31 December 2004 and the assets purchased in the following periods are accounted for at acquisition cost less accumulated depreciation and reserve for impairment.

Rental or administrative purposes or other unspecified purposes of assets that under construction will be amortised when they are ready to use.

13.b Amortization methods used:

The intangible assets are amortized principally on straight line basis which amortize the assets over their expected useful lives.

13.c Cost and accumulated amortization at the beginning and end of the period:

Current Period	Period Beginning		Period End	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Software	3.949	(3.084)	4.457	(3.442)
Goodwill	1.005	-	1.005	-

Prior Period	Prior Period Beginning		Prior Period End	
	Gross Book Value	Accumulated Amortization	Gross Book Value	Accumulated Amortization
Software	3.546	(2.692)	3.949	(3.084)
Goodwill	1.005	-	1.005	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

13. Information on intangible assets (continued)

13.d Movement of cost and accumulated amortization for the period:

Current Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost				
Software	3.949	508	-	4.457
Goodwill	1.005	-	-	1.005
Total Cost	**4.954**	**508**	**-**	**5.462**
Accumulated Amortization				
Software	(3.084)	(358)	-	(3.442)
Goodwill	-	-	-	-
Total Accumulated Amortization	**(3.084)**	**(358)**	**-**	**(3.442)**
Impairment Provision	-	-	-	-
Software	-	-	-	-
Total Impairment Provision	**-**	**-**	**-**	**-**
Net Book Value	**1.870**	**150**	**-**	**2.020**

Prior Period	Closing Balance of Prior Period	Current Year Additions	Current Year Disposals	Closing Balance of Current Period
Cost				
Software	3.546	403	-	3.949
Goodwill	1.005	-	-	1.005
Total Cost	**4.551**	**403**	**-**	**4.954**
Accumulated Amortization				
Software	(2.692)	(392)	-	(3.084)
Goodwill	-	-	-	-
Total Accumulated Amortization	**(2.692)**	**(392)**	**-**	**(3.084)**
Impairment Provision				
Software	-	-	-	-
Total Impairment Provision	-	-	-	-
Net Book Value	**1.859**	**11**	**-**	**1.870**

13.e The net book value, description and the remaining amortization period of any material individual intangible asset in the financial statements:

As of the reporting date, the Group has no individual intangible asset which is material to the financial statements as a whole (31 December 2011: None).

13.f Disclosure for intangible assets acquired through government grants and accounted for at fair value at initial recognition:

As of the reporting date, the Group has no intangible assets acquired through government grants (31 December 2011: None).

13.g The method of subsequent measurement for intangible assets that are acquired through government incentives and recorded at fair value at the initial recognition:

As of the reporting date, the Group has no intangible assets acquired with government incentives (31 December 2011: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

13. Information on intangible assets (continued)

13.h The book value of intangible assets that are pledged or restricted for use:

As of the reporting date, the Group has no intangible assets with restricted use or pledged (31 December 2011: None).

13.i Amount of purchase commitments for intangible assets:

As of the reporting date, the Group has no purchase commitments for intangible assets (31 December 2011: None).

13.j Information on revalued intangible assets according to their types:

The Group did not revalue its intangible assets as at the reporting date (31 December 2011: None).

13.k Amount of total research and development expenses recorded in income statement within the period, if any:

The Group has no research and development costs expensed in the current period (31 December 2011: None).

13.l Information on goodwill:

Goodwill on Consolidation	Share Rate %	Carrying Amount
Yatırım Finansman Menkul Değerler A.Ş.	95,78	1.005

13.m The carrying value of goodwill at beginning and end of the period, and movements within the period:

	Current Period	Prior Period
Net Value at the Beginning of the Period	1.005	1.005
Changes in the Period:	-	-
Additional Goodwill	-	-
Restatements Arising from Changes in Assets and Liabilities	-	-
Goodwill Written off due to Discontinued Operations or Partial/Full Derecognizing of an Asset (-)	-	-
Impairment Loss (-)	-	-
Reversal of Impairment loss (-)	-	-
Changes in Carrying Value	-	-
Net Value at the End of Period	**1.005**	**1.005**

13.n The carrying value of negative goodwill at beginning and end of the period, and movements within the period:

As of the reporting date, the Group has no negative goodwill in the accompanying financial statements (31 December 2011: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

14. Information on investment properties

In the current period, the Parent Bank has 3 investment properties with a net book value of TL 240.370 belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector. The fair values of the investment properties are determined as TL 18.650, TL 10.100 and TL 211.620 based on an independent appraisal reports by a CMB registered real-estate appraiser company issued on 31 December 2012, respectively. As of 31 December 2012, TL 3.228 of fair value (31 December 2011: TL 9.218) difference is recognized under other operating income in the accompanying financial statements.

Investment Properties Movement table as of 31 December 2012 and 31 December 2011 is as below:

Current Period	Closing Balance of Prior Period	Transfer from Tangible Assets	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	7.360	-	-		2.740	10.100
Pendorya AVM	203.845	-	6.433	(107)	1.449	211.620
Adana Arsa Projesi	15.600	-	4.697	(686)	(961)	18.650
Total	**226.805**	**-**	**11.130**	**(793)**	**3.228**	**240.370**

Prior Period	Closing Balance of Prior Period	Transfer from Tangible Assets	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	6.265	-	-		1.095	7.360
Pendorya AVM	195.290	-	1.027	(3)	7.531	203.845
Adana Arsa Projesi	11.726	-	3.568	(286)	592	15.600
Total	**213.281**	**-**	**4.595**	**(289)**	**9.218**	**226.805**

15. Information on deferred tax assets

15.a Temporary differences, tax losses, exemptions and deductions reflected to balance sheet as deferred tax asset:

The Group has computed deferred tax asset or liability on ''temporary differences'' arising from carrying values of assets and liabilities in the accompanying financial statements and their tax bases.

Deferred tax asset:	**Current period**	**Prior period**
Loan commissions accrual adjustment	11.496	12.090
Other provisions	10.775	8.174
Marketable securities	119	1.131
Employee benefit provision	1.778	1.172
Other	617	1.642
Total Deferred Tax Asset	**24.785**	**24.209**
Deferred tax liabilities:		
Marketable securities	(14.703)	(4.902)
Borrowings commissions accrual adjustment	(2.395)	(1.832)
Derivative instrument accruals	(2.004)	(1.076)
Useful life difference of fixed assets	(40)	(735)
Total Deferred Tax Liability	**(19.142)**	**(8.545)**
Net Deferred Tax Asset	**5.643**	**15.664**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and disclosures related to the consolidated assets (continued)

15.b Temporary differences over which deferred tax asset are not computed and recorded in the balance sheet in prior periods, if so, their expiry date, losses and tax deductions and exceptions:

There is no deductible temporary differences that are not included in calculation of deferred tax asset and not reflected to financial statements in prior periods. (31 December 2011: None).

15.c Allowance for deferred tax and deferred tax assets from reversal of allowance:

There is no allowance for deferred tax and deferred tax assets from reversal of allowance (31 December 2011: None).

16. Information on assets held for sale:

In the current period, the Parent Bank has no assets held for sale (31 December 2011: None).

17. Information about other assets

17.a Other assets which exceed 10% of the balance sheet total (excluding off balance sheet commitments) and breakdown of these which constitute at least 20% of grand total:

Other assets do not exceed 10% of total assets, excluding off-balance sheet commitments (31 December 2011: None).

II. Explanations and disclosures related to the consolidated liabilities

1. Information on maturity structure of deposits

1.a.1 Maturity structure of deposits:

The Parent Bank is not authorized to accept deposits.

1.a.2 Information on saving deposits under the guarantee of saving deposit insurance fund and exceeding the limit of deposit insurance fund:

The Parent Bank is not authorized to accept deposits.

1.b Information on the scope whether the bank with a foreign head office suits saving deposit insurance of the related country:

The Parent Bank is not authorized to accept deposits.

1.c Saving deposits which are not under the guarantee of deposit insurance fund:

The Parent Bank is not authorized to accept deposits

2. Negative differences table related to derivative financial liabilities held-for-trading

Derivative Financial Liabilities Held For Trading	**Current Period**		**Prior Period**	
	TL	**FC**	**TL**	**FC**
Forward Transactions	1.565	1.164	6.119	6.451
Swap Transactions	-	17.901	351	17.882
Futures Transactions	-	-	-	-
Options	-	367	-	17.940
Other	-	-	-	-
Total	**1.565**	**19.432**	**6.470**	**42.273**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

3. Information on banks and other financial institutions

3.a Information on banks and other financial institutions:

	Current Period		Prior Period	
	TL	FC	TL	FC
Loans from Central Bank of Turkey	-	-	-	-
From Domestic Banks and Institutions	142.819	90.711	10.006	232.836
From Foreign Banks, Institutions and Funds	-	6.796.075	13.757	6.528.936
Total	**142.819**	**6.886.786**	**23.763**	**6.761.772**

3.b Maturity analysis of funds borrowed:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	142.819	270.665	23.763	533.785
Medium and long-term	-	6.616.121	-	6.227.987
Total	**142.819**	**6.886.786**	**23.763**	**6.761.772**

3.c Additional information about the concentrated areas of liabilities:

Under normal banking operations, the Parent Bank provided funds under repurchase agreements and funds borrowed. Fund resources of the Parent Bank particularly consist of foreign FC funds borrowed and FC and TL repurchase transactions. Information relating to funds provided under repurchase agreements is shown in the table below:

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Transactions	1.016.533	50.613	769.607	61.654
Financial institutions and organizations	941.545	-	736.039	-
Other institutions and organizations	38.312	39.977	18.090	52.161
Real persons	36.676	10.636	15.478	9.493
From Foreign Transactions	794	167.239	185	116.308
Financial institutions and organizations	155	166.710	19	115.309
Other institutions and organizations	-	-	-	-
Real persons	639	529	166	999
Total	**1.017.327**	**217.852**	**769.792**	**177.962**

4. Other liabilities which exceed 10 % of the balance sheet total (excluding off-balance sheet commitments) and the breakdown of these which constitute at least 20 % of grand total

There are no other liabilities which exceed 10% of the balance sheet total (31 December 2011: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

5. Explanations on financial lease obligations (net)

5.a The general explanations on criteria used in determining instalments of financial lease agreements, renewal and purchasing options and restrictions in the agreements that create significant obligations to the bank:

The Parent Bank entered into financial lease transactions with the Parent Bank's associate İş Finansal Kiralama A.Ş. The lease agreements are paid in equal instalments. There are no issues in these agreements which would cause significant liabilities to the Parent Bank.

5.b Explanations on modifications of agreements and new obligations bring forth:

There are no modifications in financial leasing contracts.

5.c Explanations on finance lease payables:

	Current Period		Prior Period	
	Gross	**Net**	**Gross**	**Net**
Less than 1 year	8	6	-	-
Between 1- 4 years	-	-	2	-
More than 4 years	-	-	-	-
Total	**8**	**6**	**2**	**-**

5.d Explanations regarding operational leases:

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

5.e Explanations on the lessor and lessee in sale and lease back transactions, agreement conditions, and major agreement terms:

The Group has no sale and lease back transactions as of the reporting date (31 December 2011: None).

6. Information on derivative financial liabilities for hedging purposes

The Group has no derivative financial liabilities for hedging purposes as of reporting date (31 December 2011: None).

7. Information on provisions

7.a Information on general loan loss provisions:

	Current Period	Prior Period
General Provisions	**77.247**	**58.491**
Provisions for First Group Loans and Receivables	67.544	51.699
- Additional provisions for the loans with extended payment plan	-	-
Provisions for Second Group Loans and Receivables	599	994
- Additional provisions for the loans with extended payment plan	-	-
Provisions for Non-Cash Loans	2.417	2.220
Other	6.687	3.578

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

7. Information on provisions

7.b Foreign exchange losses on the foreign currency indexed loans and finance lease receivables:

As of reporting date, the Group's foreign exchange losses on the foreign currency indexed loans amount to TL 8.426 (31 December 2011: TL 1.199). The foreign exchange losses on the foreign currency indexed loans are netted off from the loans in the financial statements.

7.c The specific provisions provided for unindemnified non cash loans:

The Group has no specific provisions provided for unindemnified non cash loans as of the reporting date (31 December 2011: TL 4).

7.d Information related to other provisions:

7.d.1 Provisions for possible losses:

There is no provision for possible losses (31 December 2011: None).

7.d.2 Information on employee termination benefits and unused vacation accrual:

The Group has calculated reserve for employee termination benefits by using actuarial valuations as set out in the Turkish Accounting Standard No:19 and reflected the calculated amount to the financial statements.

As of 31 December 2012, TL 11.295 (31 December 2011: TL 10.344) reserve for employee termination benefits was provided against a total undiscounted liability of TL 7.769 (31 December 2011: TL 4.752).

As of 31 December 2012, the Group provided a reserve of TL 1.217 (31 December 2011: TL 1.107) for the unused vacations. This balance is classified under reserve for employee benefits in the financial statements.

Movement employee termination benefits

	Current Period	**Prior Period**
As of 1 January	4.752	4.146
Payments during the period	(1.402)	(654)
Arising during the period	4.419	1.260
Total	**7.769**	**4.752**

Liabilities on pension rights

As explained on the Section Three, Accounting Policies, XVI. Explanations on Liabilities Regarding Employee Benefits as of 31 December 2012, the Group has no obligations on pension rights (31 December 2011: None).

Liabilities for pension funds established in accordance with Social Security Institution

None (31 December 2011: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

7. Information on provisions (continued)

Liabilities resulting from all kinds of pension funds, foundations etc. which provide post retirement benefits for the employees

The Parent Bank's present value of the liabilities, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 2012 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated February 2013, there is no need for technical or actual deficit to book provision as of 31 December 2012. Accordingly, as of 31 December 2012 the Parent Bank has no requirements for the benefits transferable to the fund and for other benefits not transferable to the fund and arising from other social rights and payments covered by the existing trust indenture of the Fund and medical benefits provided for employees in accordance to the law explained in Note 3.15, the accounting policies related with employee benefits.

7.d Information related to other provisions

7.d.3 If other provisions exceeds 10% of total provisions, the name and amount of sub-accounts:

	Current Period	**Prior Period**
Provision for Possible Losses	-	-
Provision for Dividend Received from Subsidiaries	-	-
Other (*)	53.940	40.320
Total	**53.940**	**40.320**

(*) Other provision account includes TL 50.000 of provision for risks on credit portfolio (31 December 2011: TL 40.000).

8. Information on taxes payable

8.a Information on taxes payable:

8.a.1 Information on taxes payable:

	Current Period		**Prior Period**	
Corporate Taxes and Deferred Taxes	**TL**	**FC**	**TL**	**FC**
Corporate Taxes Payable (*)	29.690	-	13.583	-
Deferred Tax Liability	-	-	-	-
Total	**29.690**	**-**	**13.583**	**-**

(*) As of 31 December 2012, Corporate Tax Provision is TL 94.286 and netted off from Prepaid Tax of TL 64.596 (31 December 2011: Corporate Tax Provision is TL 49.201 and netted off from Prepaid Tax of TL 35.618).

8.a.2 Information on taxes payable:

	Current Period	**Prior Period**
Corporate Taxes Payable	29.690	13.583
Taxation of Securities	1.079	1.276
Property Tax	-	-
Banking and Insurance Transaction Tax (BITT)	1.224	1.073
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	84	112
Other	873	1.391
Total	**32.950**	**17.435**

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

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

8. Information on taxes payable (continued)

8.a Information on taxes payable (continued):

8.a.3 Information on premiums:

	Current Period	Prior Period
Social Security Premiums-Employee	86	80
Social Security Premiums-Employer	91	84
Bank Social Aid Pension Fund Premium-Employee	-	-
Bank Social Aid Pension Fund Premium-Employer	-	-
Pension Fund Membership Fees and Provisions-Employee	-	-
Pension Fund Membership Fees and Provisions-Employer	-	-
Unemployment Insurance-Employee	22	23
Unemployment Insurance-Employer	45	46
Other	13	-
Total	**257**	**233**

8.b Information on deferred taxes liabilities:

As of the reporting date, the Group has no deferred tax liability (31 December 2011: None).

9. Information on liabilities regarding assets held for sale

None (31 December 2011: None).

10. Explanations on the number of subordinated loans the group used, maturity, interest rate, institution that the loan was borrowed from, and conversion option, if any

The Parent Bank has signed an agreement with the International Finance Corporation, for a subordinated loan of USD 50 Million (TL 88.400 as of 31 December 2012). The interest accrued on this loan is TL 725 as of the reporting date.

The first agreement date of the loan was 21 September 2004. The first usage date was 5 November 2004. The interest rate is variable; at the reporting date it is (0,60+3,25 spread) 3,85%. Principal of the loan will be repaid on 15 October 2016 as a whole.

Information on subordinated loans

	Current Period		Prior Period	
	TL	FC	TL	FC
From Domestic Banks	-	-	-	-
From Other Domestic Institutions	-	-	-	-
From Foreign Banks	-	-	-	-
From Other Foreign Institutions	-	89.125	-	95.000
Total	**-**	**89.125**	**-**	**95.000**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

11. Information on shareholders' equity

11.a Presentation of paid-in capital:

	Current Period	Prior Period
Common Stock	1.100.000	800.000
Preferred Stock	-	-

11.b Paid-in capital amount, explanation as to whether the registered share capital system ceiling is applicable at bank, if so amount of registered share capital:

Capital System	Paid-in Capital	Ceiling
Registered Capital System	1.100.000	2.500.000

It is accepted to increase the Parent Bank's registered capital from TL 1.000.000 to TL 2.500.000 and in this context it is accepted to change the 5th clause of the Bank's main agreement. According to Banking Regulation and Supervision Agency's article dated 19 January 2012, numbered 1468 and in accordance with Capital Market Law's 11th article numbered 2499, the approval of registered capital increase registered with Turkish Trade Registry Gazette No: 8042 on 5 April 2012.

11.c Information on share capital increases and their sources; other information on increased capital shares in current period:

In the meeting of the General Assembly held on 26 March 2012; it has been resolved that, paid-in capital of the Parent 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 form extraordinary reserves The increase in paid-in capital has approved by the BRSA on 10 May 2012, has registered on 6 June 2012 and has been published in the Turkish Trade Registry Gazette No: 8088 on 12 June 2012.

In the meeting of the General Assembly held on 25 March 2011; it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 700.000 to TL 800.000 by TL 100.000. In respect of the resolution of the General Assembly, TL 100.000 of this increase will be incorporated from the profit of the year 2010. The increase in paid-in capital was approved by the BRSA on 15 April 2010, has registered on 12 May 2011 and has been published in the Turkish Trade Registry Gazette No: 7824 on 27 May 2011.

11.d Information on share capital increases from capital reserves:

In the current period there is no share capital increases from capital reserves (31 December 2011: None).

11.e Capital commitments in the last fiscal year and at the end of the following interim period, the general purpose of these commitments and projected resources required to meet these commitments:

The Parent Bank has no capital commitments in the last fiscal year and at the end of the following interim period (31 December 2011: None).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

11. Information on shareholders' equity (continued)

11.f Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:

The prior period income, the profitability and liquidity of the Parent Bank and their trends in the successive periods are followed by Financial Control Department by considering the outcomes of the potential changes in the foreign exchange rate, interest rate and maturity alterations on profitability and liquidity under several different scenario analyses. The Parent Bank operations are profitable , and the Parent Bank keeps the major part of its profit by capital increases or capital reserves within the shareholders' equity.

11.g Information on preferred shares:

The Parent Bank has no preferred shares (31 December 2011: None).

11.h Information on marketable securities value increase fund:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
From Associates, Subsidiaries, and Entities Under Common Control	2.450	-	2.680	-
Valuation Differences	61.919	69.385	(5.526)	20.006
Foreign Exchange Difference	-	-	-	-
Total	**64.369**	**69.385**	**(2.846)**	**20.006**

11.i Information on legal reserves:

	Current Period	Prior Period
First legal reserve	62.321	49.750
Second legal reserve	62.678	48.174
Other Legal Reserves Appropriated In Accordance with Special Legislation	53	51
Total	**125.052**	**97.975**

11.j Information on extraordinary reserves:

	Current Period	Prior Period
Reserves Appropriated by the General Assembly	7.544	152.167
Retained Earnings	2.920	2.920
Accumulated Losses	-	-
Foreign Currency Share Capital Exchange Differences	-	-
Total	**10.464**	**155.087**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and disclosures related to the consolidated liabilities (continued)

11. Information on shareholders' equity (continued)

11.k Explanations related to equity:

Movement of equity reserves during the period:

	Value Increase Funds of Marketable Securities from Available for Sale	Value Increase Funds of Marketable Securities from Subsidiaries and Associates	Revaluation value increase Subsidiaries and Associates	Others Equity Reserves	Total
As of 1 January	**14.480**	**2.680**	**31.174**	**374**	**48.708**
Value increase/decrease of available for sale investments recognized directly under equity	145.633	(230)		-	145.403
Profit/loss on disposal of available for sale investments recycled to income statement from equity	(756)	-		-	(756)
Tax effect of gains on available for sale investments	(28.053)	-		-	(28.053)
Other (*)	-	-	3.983	-	3.983
As of 31 December	**131.304**	**2.450**	**35.157**	**374**	**169.285**

(*) In the current period, according to the Turkish Corporate Tax Code 5-(I)/e, 75% of the gain on sale of the building amounting to TL 5.311 in the tax purpose financial statements amounting to TL 3.983 exempt from corporate income tax and for the five years following 2011, until the profit distribution process has completed, gains are agreed to be kept in a special fund account under equity and within the specified period, except the share capital, gains are not allowed to transfer into another account. The Parent Bank has transferred such gains to the ''Tangible and Intangible Assets Revaluation Differences '' accounts.

12. Information on minority shares:

	Current Period	Prior Period
Paid-in-Capital	54.343	68.461
Share Premium	205	228
Securities Value Increase Fund	15	-
Legal Reserves	109	897
Extraordinary Reserves	2.061	7.121
Other Profit Reserves	-	-
Retained Earnings / Accumulated Losses	19.399	22.227
Net Profit or Loss	8.141	(2.143)
Total	**84.273**	**96.791**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments

1. Information on off-balance sheet liabilities

1.a Nature and amount of irrevocable loan commitments:

Group has commitments for forward purchase and sales of assets amounting to TL 10.175 (31 December 2011: TL 150.324), commitments for stock brokerage purchase and sales amounting to TL 135.666 (31 December 2011: TL 23.463), commitments for letter of credit amounting to TL 338.675 (31 December 2011: 434.332).

1.b Possible losses and commitments related to off-balance sheet items including items listed below:

1.b.1 Non-cash loans including guarantees, acceptances, financial collaterals and other letters of credits

As of the reporting date, total letter of credits is TL 572.564 (31 December 2011: TL 555.929).

1.b.2 Guarantees, surety ships, and similar transactions

As of the reporting date, total letters of guarantee is TL 635.768 (31 December 2011: TL 689.477).

1.c.1 Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash Loans Given Against Achieving Cash Loans	-	-
With Maturity of One Year or Less than One Year	-	-
With Maturity of More than One Year	-	-
Other Non-Cash Loans	1.212.557	1.268.979
Total	**1.212.557**	**1.268.979**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

1. Information on off-balance sheet liabilities (continued)

1.c.2 Information on sectoral risk breakdown of non-cash loans:

	Current Period				Prior Period			
	TL	**(%)**	**FC**	**(%)**	**TL**	**(%)**	**FC**	**(%)**
Agriculture	-	-	-	-	-	-	-	-
Farming and stockbreeding	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Fishing	-	-	-	-	-	-	-	-
Industry	160.031	55	668.187	72	151.208	51	948.748	97
Mining	-	-	-	-	-	-	-	-
Manufacturing Industry	4.393	1	286.673	31	4.391	1	272.765	28
Electricity, Gas, Water	155.638	54	381.514	41	146.817	50	675.983	69
Construction	4.285	2	4.665	1	4.785	2	4.882	1
Services	122.439	42	248.950	27	138.454	46	16.894	2
Wholesale and Retail Trade	-	-	182.048	20	-	-	-	-
Hotel, Food and Beverage Services	-	-	-	-	-	-	-	-
Transportation and Communication	-	-	-	-	-	-	-	-
Financial Institutions	121.959	42	66.434	7	138.131	46	16.400	2
Real Estate and Leasing Services	480	-	468	-	323	-	494	-
Self-employment Services	-	-	-	-	-	-	-	-
Education Services	-	-	-	-	-	-	-	-
Health and Social Services	-	-	-	-	-	-	-	-
Other	4.000	1	-	-	4.008	1	-	-
Total	**290.755**	**100**	**921.802**	**100**	**298.455**	**100**	**970.524**	**100**

1.c.3 Information on Ist and IInd group non-cash loans:

	Ist Group				IInd Group			
	Current Period		**Prior Period**		**Current Period**		**Prior Period**	
	TL	**FC**	**TL**	**FC**	**TL**	**FC**	**TL**	**FC**
Non-cash Loans	**290.755**	**921.802**	**298.455**	**970.524**	-	-	-	-
Letters of Guarantee	286.530	349.238	278.215	411.262	-	-	-	-
Bank Acceptances	-	-	-	3.333	-	-	-	-
Letters of Credit	-	572.564	-	555.929	-	-	-	-
Endorsements	-	-	-	-	-	-	-	-
Purchase Guarantees on Issuance of Securities	-	-	-	-	-	-	-	-
Factoring Guarantees	-	-	-	-	-	-	-	-
Other	4.225	-	20.240	-	-	-	-	-

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

2. Information related to derivative financial instruments

	Current Period	Prior Period
Foreign currency related derivative transactions (I)	1.301.638	3.540.196
Forward transactions	475.517	1.234.847
Swap transactions	706.432	887.503
Futures transactions	-	-
Option transactions	119.689	1.417.846
Interest related derivative transactions (II)	1.677.074	1.426.824
Interest rate swap transactions	1.645.874	1.376.916
Interest option transactions	31.200	49.908
Futures interest transactions	-	-
Other trading derivative transactions (III)	-	1.939
A. Total trading derivative transactions (I+II+III)	2.978.712	4.968.959
Types of hedging transactions	-	-
Fair value hedges	-	-
Cash flow hedges	-	-
Net investment hedges	-	-
B. Total hedging related derivatives	-	-
Total Derivative Transactions (A+B)	**2.978.712**	**4.968.959**

As of 31 December 2012, the breakdown of the Group's foreign currency forward and swap transactions based on currencies are disclosed below in their TL equivalents:

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Futures Buy	Futures Sell	Other Buy	Other Sell
Current Period										
TL	55.432	55.189	37.968	14.070	15.734	15.734	-	-	-	-
US Dollar	63.778	63.756	547.368	826.694	40.631	20.069	-	-	-	-
Euro	118.678	118.684	593.050	332.263	18.865	39.856	-	-	-	-
Other	-	-	893	-	-	-	-	-	-	-
Total	**237.888**	**237.629**	**1.179.279**	**1.173.027**	**75.230**	**75.659**	**-**	**-**	**-**	**-**

	Forward Buy	Forward Sell	Swap Buy	Swap Sell	Option Buy	Option Sell	Future s Buy	Futures Sell	Other Buy	Other Sell
Prior Period										
TL	277.535	83.959	158.308	14.070	322.425	322.425	-	-	-	1.939
US Dollar	145.624	307.833	369.504	775.506	124.239	124.239	-	-	-	-
Euro	195.403	224.493	604.056	341.518	284.827	284.827	-	-	-	-
Other	-	-	568	889	2.386	2.386	-	-	-	-
Total	**618.562**	**616.285**	**1.132.436**	**1.131.983**	**733.877**	**733.877**	**-**	**-**	**-**	**1.939**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

2. Information related to derivative financial instruments (continued)

	Current Period			Prior Period		
Derivative Financial Liabilities Held For Trading	**Fair value assets**	**Fair value liabilities**	**Contractual Derivative Transactions TL Amount**	**Fair value assets**	**Fair value liabilities**	**Contractual Derivative Transactions TL Amount**
Swap Transactions	4.518	(356)	706.432	5.362	(7.959)	887.503
Interest Rate Swap Transactions	15.312	(17.546)	1.645.874	8.086	(10.274)	1.376.916
Forward Transactions	2.980	(2.729)	475.517	13.965	(12.570)	1.234.847
Futures Transactions	-	-	-	-	-	-
Option Transactions	433	(366)	150.889	17.940	(17.940)	1.467.754
Other	-	-	-	-	-	1.939
Total	**23.243**	**(20.997)**	**2.978.712**	**45.353**	**(48.743)**	**4.968.959**

Fair value hedges

For the year ended 31 December 2012 the Group does not have any items to hedge financial risks (31 December 2011: None).

Hedging from the cash-flow risk

As of 31 December 2012 there is no cash-flow hedging transactions (31 December 2011: None).

3. Explanations on loan derivatives and risk exposures

The Group has no loan derivatives and risk exposures to this respect.

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

4. Explanations on contingent liabilities and assets

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

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

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

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

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

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

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations related to the consolidated off-balance sheet contingencies and commitments (continued)

5. Custodian and intermediary services

The Group provides trading and safe keeping services in the name and account of real persons, entities, funds, pension funds and other entities which are presented in the statement of contingencies and commitments.

IV. Explanations and disclosures related to the consolidated income statement

1. Information on interest income

1.a Information on interest on loans:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Interest on Loans (*)				
Short Term Loans	12.779	9.749	15.123	4.619
Medium and Long Term Loans	75.746	233.951	75.033	185.584
Interest on Non-performing Loans	219	514	6.352	1.851
Premiums received from Resource Utilization Support Fund	-	-	-	-
Total	**88.744**	**244.214**	**96.508**	**192.054**

(*)Commission income from loans has been included to the interest on loans.

1.b Information on interest received from banks:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
The Central Bank of Turkey	-	-	-	-
Domestic Banks	22.942	224	22.578	8.622
Foreign Banks	1	1	-	49
Branches and Head Office Abroad	-	-	-	-
Total	**22.943**	**225**	**22.578**	**8.671**

1.c Information on interest received from marketable securities:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Trading Securities	3.756	-	6.451	1
Financial Assets at Fair Value Through Profit and Loss	-	-	-	-
Available for Sale Financial Assets	208.945	28.382	137.219	29.068
Investments Held to Maturity	7.693	-	35.817	-
Total	**220.394**	**28.382**	**179.487**	**29.069**

1.d Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest Received from Associates and Subsidiaries	2.837	1.629

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

2. Information on interest expense

2.a Information on interest on funds borrowed:

	Current Period		Prior Period	
	TL	**FC**	**TL**	**FC**
Banks	3.039	6.073	1.334	6.834
The Central Bank of Turkey	4	-	421	-
Domestic Banks	3.006	695	894	575
Foreign Banks	29	5.378	19	6.259
Branches and Head Office Abroad	-	-	-	-
Other Financial Institutions	-	84.231	-	72.226
Total (*)	**3.039**	**90.304**	**1.334**	**79.060**

(*)Commissions given to other financial institutions have been included in interest expense on funds borrowed.

2.b Information on interest expenses to associates and subsidiaries:

There is no interest expense to its associates and subsidiaries.

2.c Information on interest expense to securities issued:

	Current period	Prior period
Interest Expense to Securities Issued	-	3.922

3. Information on dividend income

	Current period	Prior period
Trading Securities	407	894
Financial Assets at Fair Value Through Profit and Loss	-	-
Available-for-Sale Securities	2.173	2.035
Other	3.434	2.293
Total	**6.014**	**5.222**

4. Information on net trading income (net)

	Current period	Prior period
Profit	**406.082**	**659.102**
Gains on capital market operations	7.195	8.613
On derivative financial instruments (*)	160.512	179.605
Foreign exchange gains	238.375	470.884
Losses (-)	**(379.773)**	**(679.127)**
Losses on capital market operations	(4.377)	(13.643)
On derivative financial instruments (*)	(111.773)	(234.035)
Foreign exchange losses	(263.623)	(431.449)

(*) Foreign exchange gain from derivative transactions amounting to TL 133.264 is presented in "Profit on derivative financial instruments" (31 December 2011: TL 133.556), foreign exchange loss from derivative transactions amounting to TL (104.134) is presented in "Losses on derivative financial instruments" (31 December 2011: TL (189.194)).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

5. Information related to other operating income

	Current Period	Prior Period
Provisions Released	13.638	14.564
Gains on Sale of Assets	2.962	11.467
From Associate and Subsidiary Sales	-	-
From Immovable Fixed Asset Sales	2.912	-
From Property Sales	50	-
From Other Asset Sales	-	11.467
Other	15.660	26.850
Total	**32.260**	**52.881**

(*) Gain on fair value difference of investment properties of the Group amounting to TL 4.189 and rent income amounting to TL 9.518 is included in "Other"(31 December 2011: TL 9.218 fair value difference, TL 8.931 rent income).

6. Provision expenses related to loans and other receivables of the Group

	Current Period	Prior Period
Specific provisions for loans and other receivables	613	8.203
III. Group	59	6.713
IV. Group	1	1
V. Group	553	1.489
General provision expenses	18.756	14.952
Provision expenses for possible losses	-	-
Marketable securities impairment expenses	1.476	3.784
Trading securities	396	1.672
Investment securities available for sale	1.080	2.112
Impairment provisions	-	-
Associates	-	-
Subsidiaries	-	-
Entities under common control (Joint Vent.)	-	-
Investment securities held to maturity	-	-
Other	13.750	5.295
Total	**34.595**	**32.234**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

7. Information Related to Other Operating Expenses

	Current Period	Prior Period
Personnel expenses	60.091	56.458
Reserve for employee termination benefits	3.017	755
Bank social aid fund deficit provision	-	-
Impairment expenses of fixed assets	-	-
Depreciation expenses of fixed assets	2.486	2.412
Impairment expenses of intangible assets	-	-
Impairment expense of goodwill	-	-
Amortization expenses of intangible assets	358	392
Impairment on subsidiaries accounted for under equity method	-	-
Impairment on assets for resale	20	50
Depreciation expenses of assets held for resale	9	588
Impairment expenses of assets held for sale	-	-
Other operating expenses	22.865	22.119
Rent expenses	2.107	1.873
Maintenance expenses	1.477	1.412
Advertisement expenses	1.372	1.738
Other expenses	17.909	17.096
Loss on sales of assets	110	161
Other	11.262	10.311
Total	**100.218**	**93.246**

8. Information on profit/loss before tax from continued and discontinued operations before tax

As of 31 December 2012, profit before tax of the Group has increased by 24,70% as compared to the prior period (31 December 2011: 12,11% increased). In comparison with the prior year, the Group's net interest income has increased by 17,97% (31 December 2011: 18,33% increase)

9. Information on tax provision for continued and discontinued operations

9.a Information on current tax charge or benefit and deferred tax charge or benefit:

The Group's current tax charge for the period is TL 94.286 (31 December 2011: TL 51.040). Deferred tax benefit is TL 18.032 (31 December 2011: TL 12.229 tax charge).

9.b Information related to deferred tax benefit or charge on temporary differences:

Deferred tax benefit calculated on temporary differences is TL 18.032 (31 December 2011: TL 12.229 tax charge).

9.c Information related to deferred tax benefit / charge on temporary differences, losses, tax deductions and exceptions:

As of 31 December 2012, deferred tax benefit calculated based on temporary timing differences is TL 18.032 (31 December 2011: TL 12.229 tax charge). There is no deferred tax benefit or charge reflected to income statement on carry forward tax losses, tax deductions and exceptions (31 December 2011: None).

In addition, TL 32.264 deferred tax, which is calculated over the fair value differences on available for sale securities, is offset against the "available for sale securities value increase fund" item under equity (31 December 2011: TL 4.211).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations and disclosures related to the consolidated income statement (continued)

10. Information on net profit from continued and discontinued operations before tax

For the year ended 31 December 2012, net profit of the Group has increased by 25,73 % compared to the prior year (31 December 2011: 13,55 %).

11. Information on net profit/loss

11.a The nature and amount of certain income and expense items from ordinary operation is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Group's performance for the period:

The Group has generated TL 613.037 interest income, TL 188.193 interest expenses, TL 26.520 net fee and commission income from banking operations (31 December 2011: TL 534.704 interest income, TL 174.582 interest expenses, TL 28.252 net fee and commission income).

11.b The effect of the change in accounting estimates to the net profit/loss; including the effects to the future period, if any:

There are no changes in the accounting estimates.

11.c Minority share of profit and loss:

The current year profit attributable to minority shares is TL 8.141 (31 December 2011: TL (2.143) loss). The total shareholders' equity, including current year profit attributable to minority shares is TL 84.273 (31 December 2011: TL 96.791).

12. If the other items in the income statement exceed 10 % of the income statement total, accounts amounting to at least 20 % of these items are shown below

	Current Period	**Prior Period**
Gains on Other Fees and Commissions		
Gains on Brokerage Commissions	13.834	16.119
Commissions from Initial Public Offering	469	527
Investment Fund Management Income	2.253	4.553
Other	3.171	3.534
Total	**19.727**	**24.733**

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

V. Explanations related to consolidated statement of changes in shareholders' equity

1. Information related to capital

As of 31 December 2012, shareholders are as follows:

Current Period Name Surname/Commercial Title	Share Capital	Shareholding Rate(%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	550.001	50,00	550.001	-
T. Vakıflar Bankası T.A.O.	92.152	8,38	92.152	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	457.829	41,62	457.829	-
Physically Under Custody (Other Institutions and Individuals)	18	-	18	-
Total	**1.100.000**	**100,00**	**1.100.000**	**-**

Prior Period Name Surname/Commercial Title	Share Capital	Shareholding Rate(%)	Paid in Capital	Unpaid Capital
T. İş Bankası A.Ş. Group	400.001	50,00	400.001	-
T. Vakıflar Bankası T.A.O.	67.020	8,38	67.020	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	332.969	41,62	332.969	-
Physically Under Custody (Other Institutions and Individuals)	10	-	10	-
Total	**800.000**	**100,00**	**800.000**	**-**

In the current period, in the meeting of the General Assembly held on 26 March 2012; it has been resolved that, paid-in capital of the Parent 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 form 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.

2. Information on the increase arising from the revaluation of available-for-sale securities

As of 31 December 2012, TL 163.568 value increase is arising from the valuation of available for sale investments at fair value. TL 32.264 deferred tax is offset against value increase related to these investments and as a result, TL 131.304 net value increase is disclosed under the securities value increase fund in the statement of changes in the equity. In the prior period, TL 13.984 value increase is arising from the valuation of available for sale investments at fair value. TL 4.211 deferred tax is offset against value increase related to these investments and as a result, TL 9.773 net value increase is disclosed under the securities value increase fund in the statement of changes in the equity.

3. Information on increases in the cash flow hedges

There is no increase in the cash flow hedges.

4. Reconciliation between beginning and ending balances for foreign currency differences

There is no difference in the beginning and ending balances for foreign currency differences accounted for under equity.

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

V. Explanations related to consolidated statement of changes in shareholders' equity (continued)

5. Information on the decrease arising from the revaluation of securities available-for-sale

The increase/decrease arising from the revaluation of securities available-for-sale is explained in Note V.2, above.

6. Information about dividends

6.a Dividends declared subsequent to the reporting date, but before the announcement of the financial statements:

Dividend income related with the equity shares are determined by the General Assembly of the Shareholders. Weighted average number of shares outstanding is taken into account in the calculation of earnings per share. In case the number of shares increases by way of bonus issues as a result of the capital increases made by using the internal sources, the calculation of earnings per share is made by adjusting the weighted average number of shares, which were previously calculated as at the comparable periods. The adjustment means that the number of shares used in calculation is taken into consideration as if the bonus issue occurred at the beginning of the comparable period. In case such changes in the number of shares occur after the balance sheet date, but before the ratification of the financial statements to be published, the calculation of earnings per share are based on the number of new shares. The profit distribution will be approved at the General Assembly, which is not yet held as of the date of the financial statements authorized for issue.

6.b Net dividend per share proposed after the reporting period:

As of the reporting date, there are no dividends proposed by the Parent Bank for the approval in the General Assembly as explained above.

7. Amounts transferred to legal reserves

In the current year, TL 27.936 was transferred to the legal reserves (31 December 2011: TL 22.417).

8. Offsetting of the prior period's losses

There is no offsetting of accumulated losses made during the current and prior year.

VI. Explanations related to consolidated statement of cash flows

1. Explanations about other cash flows items and the effect of changes in foreign exchange rates in cash and cash equivalents

In the current period, TL 85.850 other income consists of gain from sale of assets, derivative financial instruments gain and other non-interest income (31 December 2011: TL 75.511 other income consists of other income rental income, securities trade gains gain from sale of assets and gains other than interest).

Other caption in changes in assets and liabilities from banking operations, TL (60.176) (31 December 2011: TL 24.714) consists of securities trade losses, personnel expense, financial lease expense, employee termination benefits provision, depreciation expense and other operating expense other than taxes paid, and fees and commissions paid.

In the current period, net increase/decrease in other assets TL 116.869 (31 December 2011: TL (53.518) consists of miscellaneous receivables and changes in other assets. In the current period, TL 101.026 other liabilities (31 December 2011: TL (109.594) consists of changes in funds, miscellaneous payables and funds provided under repurchase agreements.

In the current period, the effect of foreign currency differences on cash and cash equivalents is TL 2.400 loss (31 December 2011: TL 10.380 gain).

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

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. Explanations related to consolidated statement of cash flows (continued)

2. Information about cash flows from acquisition of associates, subsidiaries, and other investments:

In the current period, the Group invested TL 13.613 to movable fixed assets and properties and TL 420 to subsidiaries and associates.

In the prior period, the Group invested TL 6.384 to movable fixed assets and properties and TL 1.040 to subsidiaries and associates.

3. Information about disposal of associates, subsidiaries, and other investments:

The total amount of purchases or sales of related account and their cash and cash equivalent assets;

In the current period, the Group has generated cash inflows of TL 3.865 on sale of movable fixed assets and properties. The Group has not sold any associates and subsidiaries in the current period.

In the prior period, the Group has generated cash inflows of TL 17.995 on sale of movable fixed assets and properties. The Group has generated cash inflows of TL 392 on sale of associates and subsidiaries in the prior period.

4. Cash and cash equivalents at the beginning and end of period:

Cash and cash equivalents at the beginning of period:

	At the Beginning of Current Period	At the Beginning of Prior Period
Cash	8.200	7.520
Cash Equivalents	526.489	557.126
Total	**534.689**	**564.646**

Cash and cash equivalents at the end of period:

	At the End of Current Period	At the End of Prior Period
Cash	28.048	8.200
Cash Equivalents	438.611	526.489
Total	**466.659**	**534.689**

5. Amount of cash and cash equivalents restricted for the usage of the Parent Bank and the shareholders by legal limitations and other reasons

There are no cash and cash equivalents restricted for the usage of the Parent Bank and affiliates by legal limitations and other reasons.

6. Additional information related to financial position and liquidity

6.a Any unused financial borrowing facility which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities

There are not any unused financial borrowing facilities which can be utilized in banking operations and unpaid capital commitments and any restrictions on such facilities.

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

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. Explanations related to consolidated statement of cash flows (continued)

6. Additional information related to financial position and liquidity

6.b Apart from the cash flows needed to run ordinary operations of the Bank, total of cash flows that shows the increase in the operation capacity of the Bank:

Under current economical conditions, the cash flows are followed daily and cash flows showing the increase in the capacity of operations of the Bank are investigated.

VII. Explanations on the risk group of the Parent Bank

1. Information on the volume of transactions related to the Parent Bank's own risk group, outstanding loan and deposit transactions and income and expenses of the period

1.a Current period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	85.465	490	57.506	117.413	41.643	-
Balance at the end of the period	83.374	412	107.017	117.413	44.671	4.225
Interest and commission income received	2.832	5	2.082	294	2.031	-

1.b Prior period:

Risk Group of the Parent Bank	Subsidiaries and Associates		Direct and Indirect Shareholders of the Parent Bank		Other Entities Included in the Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	59.853	345	98.978	117.413	39.538	-
Balance at the end of the period	85.465	490	57.506	117.413	41.643	-
Interest and commission income received	1.624	5	1.721	220	2.003	

1.c Information on deposit held by Parent Bank's own risk group:

The Parent Bank is not authorized to accept deposits.

2. Information on forward and option agreements and other similar agreements made with related parties

The Parent Bank has not any derivative transactions with the Parent Bank's risk group.

3. Total salaries and similar benefits provided to the key management personnel

Benefits provided to key management personnel in the current period amount to TL 8.702 (31 December 2011: TL 8.407).

SECTION FIVE (Continued)

EXPLANATIONS AND DISCLOSURES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VIII. Information and disclosures related to the domestic, foreign offshore branches and foreign representations of the Parent Bank

1. Information and disclosures related to the domestic, foreign branches and foreign representations of the Group

	Number	Number of Employees			
Domestic branches	15	500			
			Country of Incorporation		
Foreign representations	-	-			
				Total Asset	Statutory Share Capital
Foreign branches	-	-		-	-
Off-shore banking region branches	-	-		-	-

2. Explanation on opening, closing of a branch/agency of the Parent Bank or changing its organizational structure significantly:

In the current period, the Parent Bank has opened 2 new domestic branches and there is no significant change in the organization structure of the Parent Bank's operating branches. In the Board of Directors meeting held on 25 January 2012; it was decided to close the Bahrain Branch of the Parent Bank and in this context, General Management was authorized for the required operations. In accordance with the decision, the Parent Bank management has started to executions in order to terminate the Bahrain Branch activities. As of 27 December 2012, closing procedures of the Bahrain Branch have been completed.

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

SECTION SIX

OTHER EXPLANATIONS

I. Other explanations related to the operations of the Parent Bank

1.a Brief information related to rating carried out by international rating firms:

FITCH RATINGS

Long-term Maturity Foreign Currency (issuer)	BBB-
Long-term Maturity Foreign Currency (issuer) Outlook	Stable
Short-term Maturity Foreign Currency (issuer)	F3
Long-term Maturity National Currency (issuer)	BBB-
Long-term Maturity National Currency (issuer) Outlook	Stable
Short-term Maturity National Currency (issuer)	F3
Support Note	2
National Note	AAA
National Note Outlook	Stable

Information above is received from Fitch Ratings report dated 14 December 2012.

MOODY'S

Financial Rating Note	D+
Outlook	Stable
Foreign Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Stable
Short-term Maturity	P-3
Domestic Currency (issuer)	
Long-term Maturity	Baa3
Outlook	Stable
Short-term Maturity	P-3

Information above represents updated information as of 3 July 2012.

II. Other explanations related to the events after the reporting date

In the Board of Directors meeting held on 26 December 2012, General Management was authorized for sale of Parent Bank's İş Yatırım Ortaklığı A.Ş. Group A shares with a rate of 1,43% and with a number of 2.297.411 of İş Yatırım Ortaklığı A.Ş.'s capital amounting to TL 160.599 to İş Yatırım Menkul Değerler A.Ş, in accordance with pricing principles of IMKB Wholesale Market Foundation and Operation Fundamentals Circular. Sales transaction was completed on 11 February 2013.

SECTION SEVEN

INDEPENDENT AUDITORS' REPORT

I. Explanations on the independent auditors' report

Consolidated financial statements and the notes to the financial statements as at 31 December 2012 have been audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. ("the Turkish member firm of KPMG International, a Swiss entity"). The independent auditors' report dated 12 February 2013 is presented at the beginning of the consolidated financial statements and related notes.

II. Explanations and notes prepared by independent auditors

There are no other explanations and notes not expressed in sections above related with the Group's operations.

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