T BANK

TURKLANDBANK

# 2013 ANNUAL REPORT

# T-BANK
# 2013
# ANNUAL REPORT

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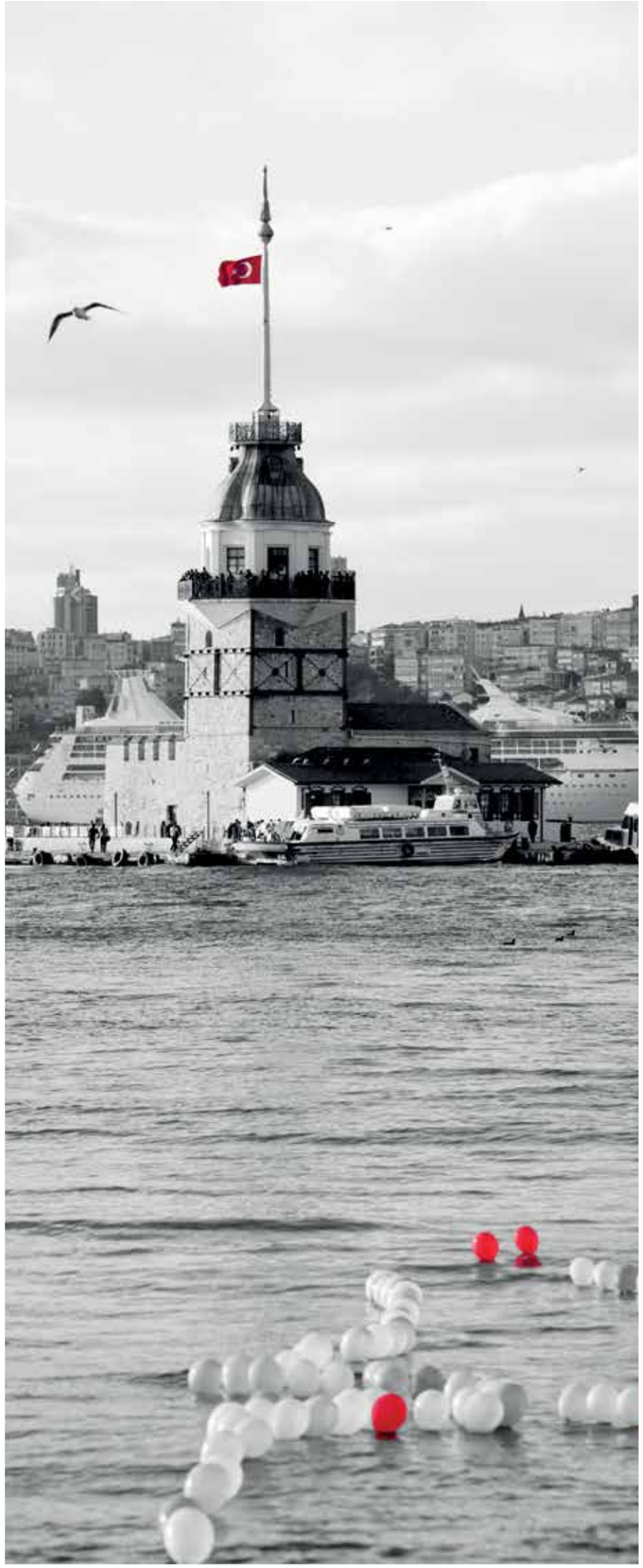
# SECTION I

## Corporate Profile

Through its 27 branches spanning Turkey's most prominent business hubs, T-Bank provides premium banking services to the commercial business sector as well as to small and medium sized enterprises (SMEs).

T-Bank benefits from the synergy of its shareholders and their established banking expertise, which enable the bank to expand its presence and develop services and products that address its growing clients needs.



T-Bank's financial results are in-line with the growth momentum of the Turkish banking sector and reflect the Bank's prudent risk management approach.

## Financial Highlights and Key Ratios

**Financial Highlights (TL thousand, USD thousand)**

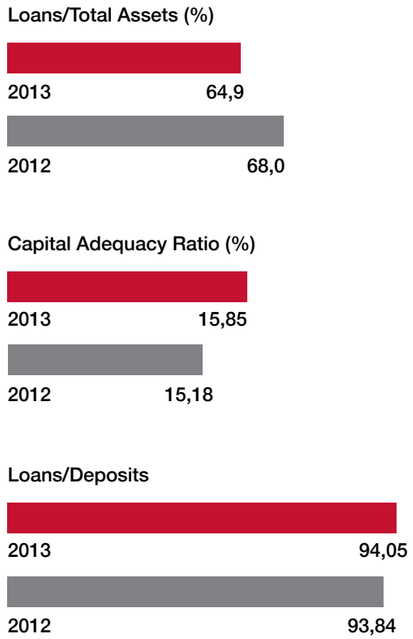
| | 31 December, 2013 | | 31 December, 2012 | | Change |
|---|---|---|---|---|---|
| | TL | USD | TL | USD | % |
| Total Assets | 4.111.263 | 1.911.149 | 2.966.250 | 1.663.349 | 39% |
| Loan Portfolio (gross) | 2.704.664 | 1.257.282 | 2.052.378 | 1.150.888 | 32% |
| Loan Portfolio (net) | 2.668.288 | 1.240.372 | 2.016.910 | 1.130.999 | 32% |
| Securities Portfolio (net) | 604.824 | 281.157 | 350.091 | 196.316 | 73% |
| Banks/Money Market Placements | 356.412 | 165.681 | 249.551 | 139.938 | 43% |
| Total Deposits | 2.837.137 | 1.318.862 | 2.149.313 | 1.205.245 | 32% |
| Borrowings | 216.995 | 100.872 | 132.495 | 74.298 | 64% |
| Equity | 539.806 | 250.933 | 366.604 | 205.576 | 47% |
| Shareholders' Guarantees and Collaterals | 1.681.382 | 781.602 | 1.078.909 | 605.007 | 56% |

| | 31 December, 2013 | | 31 December, 2012 | | Change |
|---|---|---|---|---|---|
| Net Interest Income | 120.455 | 55.994 | 110.069 | 61.722 | 9% |
| Net Commission Income | 22.280 | 10.357 | 21.795 | 12.222 | 2% |
| Profit Before Tax | 20.127 | 9.356 | 17.859 | 10.015 | 13% |
| Net Profit | 14.401 | 6.694 | 12.709 | 7.127 | 13% |

**Financial Ratio Summary**

| | 31 December, 2013 | 31 December, 2012 |
|---|---|---|
| Capital Adequacy Ratio | 15,85% | 15,18% |
| Loans (Net)/ Deposits | 94,05% | 93,84% |
| Loans (Net)/ Total Assets | 64,90% | 68,00% |
| Liquid Assets/ Total Assets | 22,59% | 18,66% |
| Non-Performing Loans (Net) /Total Loans (Net) | 1,26% | 1,64% |
| Non-Performing Loans (Gross) / Total Loans (Gross) | 2,58% | 3,34% |
| Non-Performing Loans (Net)/ Total Assets | 0,81% | 1,12% |
| Specific Loan Provisions (Non-Performing Loans) | 52,06% | 51,74% |

*(*) Includes financial assets at fair value through profit and loss and financial assets available for sale.*




# Brief History

## The strong ties it has established with its shareholder banks in the MENA region have allowed T-Bank to create a significant network, which is enhanced by Turkey's increasing trade relations in the region.

Founded in 1985 as the Istanbul Branch of Bank of Bahrain and Kuwait, T-Bank has grown to become an independent institution as of 1991 under the name Bahreyn ve Kuveyt Bankası A.Ş. In 1992, it was acquired by the Doğuş Group, and its name was changed to Garanti Yatırım ve Ticaret Bankası A.Ş. The Bank was later purchased by Mehmet Nazif Günal in 1997 and continued its activities as MNG Bank A.Ş.

In 2006, Arab Bank and BankMed signed a mutual agreement with Mehmet Nazif Günal to aquire over 91% of the MNG Bank A.Ş shares. The Banking Regulatory and Supervisory Agency (BDDK) approved this sales transaction on December 29, 2006, and the respective transfer of shares was completed in January 2007 with Arab Bank acquiring 50% and BankMed 41%. The name of the Bank was changed into Turkland Bank A.Ş, or T-Bank for abbreviation. In July 2010, BankMed purchased the remaining 9% that was still owned by Mehmet Nazif Günal, which increased its shares in T-Bank's capital from 41% to 50%.

The Bank's capital structure changed once again in November 2011 as one of Arab Bank Group's entities, Arab Bank Switzerland, became a shareholder in T-Bank following its partial contributution to the increase in capital from TL 170 million to TL 300 million. Following the capital increase, the bank's structure became as follows: BankMed 50%, Arab Bank 28.3%, and Arab Bank Switzerland 21.7%. T-Bank's capital was further increased in April 2013 to TL 500 million from TL 300 million.

T-Bank benefits from the extensive banking experience that its shareholders, Arab Bank and BankMed, enjoy. Their deep-rooted expertise in the various corporate banking sectors, which dates back to the 1930s, provides T-Bank with an added value, allowing it to attend to its customers' needs and service them in the best ways.

In 2013, the Bank continued to expand its Small and Medium Enterprises SME Banking operations while remaining focused on on its core business, the corporate and commercial banking sectors.

# Amendments to the Articles of Association

**Foundation**
**Article - 1**

A joint stock company has been founded, in accordance with the decree of the Council of Ministers dated 15.10.1991 and numbered 91/2190 and the provisions of the Banking Law and the Turkish Commercial Law, by the founders the names, surnames and addresses of whom are indicated in the articles of incorporation. (hereinafter the "Bank".)

**Founders**
**Article - 2**

The founders of the bank are the persons, the names, surnames and addresses of whom are stated in the attachment of the Articles of Incorporation.

**Purpose and Scope**
**Article - 4**

The main purpose and area of activities of the bank are the performance of any and all banking transactions within the limits stipulated and shall be stipulated by the Banking Law currently in effect as well the Laws and Statutory Decrees that shall be carried into effect in the future and the legal legislations concerning these, accepting deposits and the performance of legal procedures, actions and works that are within the Banks' areas of license.

The Bank, for this purpose and in accordance with the decrees, orders, and instructions of official bodies;

**a)** Can accept, protect and manage any deposit or can open a deposit account for its own money.
**b)** Can open any kind of credit, particularly credits that promote exportation and concern prioritized regions for development - can sign bailment agreements, provide bills of guarantee or arrange guarantee letters. Under the same conditions, it may accept the credits opened on behalf of it, receive bills of guarantee or guarantee letters.
**c)** In accordance with the Banking Law, Turkish Code of Commerce, Capital Market Law and other laws and the legal legislations concerning these, it can perform any and all industrial and commercial procedures, activities and works, can participate in persons and institutions founded in accordance with the public law, establish partnerships with such, buy or sell the shares, other stocks and bonds, securities and bills of exchange of legal entities founded or shall be founded in accordance with the public law or private law or dispose of, put in ledge, secure with a pledge such, undertake the sales of the shares and bonds offered to public by joint stock companies in accordance with the related articles of the Capital Market Law, establish, manage and operate a stocks and bonds investment fund in accordance with the related articles of the Capital Market Law, perform transactions as a brokerage house in accordance with the related articles of the Capital Market Law, perform other works and transactions utilizing the authorities and duties afforded to the banks by this law, buy or sell treasury bonds, notes and perform any legal transactions concerning such, buy or sell public participation bonds and perform any legal transactions concerning such, export stocks, bonds and other capital market tools pertaining to incurring debts in accordance with the legislation provisions and under the condition that necessary permits are in place.
**d)** Can deal with commercial representation, commercial agency, insurance agency and brokering under the condition that such is limited and related to banking transactions and the acceptance of deposits, perform mediation for importation and exportation transactions, perform importation and exportation to fulfill its purpose and scope, deal with international banking operations and the acceptance of deposits.
**e)** Can deal with commercial and industrial subjects that the deposit provides or shall provide authority for the banks to deal with.
**f)** In accordance with the related provisions of the Banking Law and under the condition that the conditions stated in these articles are complied with, it can buy commercial and industrial commodity and real estate and sell such under the same conditions and perform any legal transactions pertaining to such, sign rental contracts, be a guarantor, accept guarantorship, establish a lien, remove the lien established, negotiate a commercial business pledge or negotiate a pledge agreement.
**g)** Can perform training, economic organization and consultancy activities pertaining to banking.

**h)** Can acquire, transfer any beneficial patent rights, warrants, license and privileges, brand, model, duty and commercial titles, know-how and other intangible rights and perform any legal disposition concerning such.
**i)** Can generalize social and cultural trainings particularly pertaining to banking for the country's progress and generalize organizations or modern banking systems, establish foundations (facilities) in order to provide scholarships to talented people so that they can have trainings and internships domestically and abroad, participate in foundations founded for such purposes, provide cash and/or contributions in kind or donations to the foundations it has founded or participated in.
**i)** Can study or have studied the progresses in economic, financial banking domestically and abroad and publish publications pertaining to such.
**k)** Can perform the organization or reorganization of the banks, companies, institutions, corporations and real entities and firms that are currently in effect or shall be founded or undertake consultancy services for such.
**l)** If it deems beneficial, can establish any and all kinds of companies domestically and abroad (including Banks), participate in companies and banks founded for the same purpose, purchase the stocks and shares of such, partially or fully take over similar companies or banks and transfer or sell these to others when necessary. The provisions concerning the Banking Law are reserved.
**m)** Can undertake the correspondence or representativeness of domestic and foreign banks and give such the correspondence or representativeness of the Bank.
**n)** The Bank can also provide consultancy to Public and private sector institutions on subjects such as obtaining finances, project financing, mergers between firms and companies, privatization, going public, issuance of securities, capital liability, stock evaluations and transfers, feasibility studies and sector researches and counter trade within the limits specified by the Banking Law and the legislations in effect.

### Headquarters and Branches
**Article - 5**

The Bank's headquarters is in Istanbul. Its address is 19 Mayıs Cad. No: 7 Şişli Plaza A Blok Şişli - İstanbul. In case of a change in address, the new address is registered in the Trade Registry and declared in the Trade Registry Gazette; it is also notified to the Ministry of Customs and Commerce. The notification made to the address registered and declared shall be deemed to have been made to the Bank. In case the Bank leaves its registered and declared address and does not have its new address registered and declared in due time, this shall be deemed as a reason for termination concerning the Bank. The Bank may open branches abroad under the condition that it notifies the Ministry of Customs and Commerce.

### Transfer of Shares
**Article - 9**

**a)** The transfer of the shares or the registered share certificate concerns a statue pertaining to the Bank when registered in the stock register based on the positive decree of the Board of Directors. The Board of Directors may not agree with the transfer within the context of the TCC provisions and may refuse to register the transfer.

**b)** Following a shareholder informing the Chairman of the Board of Directors that it desires to transfer its shares, in case deemed appropriate by the Board of Directors, the purchasing of the shares are first offered to the other current shareholders of the Bank. The Board of Directors is liable to notify its decree pertaining to the transfer in three months at the latest following the date of the decree to the concerning person with a registered letter.

**c)** The share transfers that provide the result of a person directly or indirectly acquiring 10% or more of the Bank's capital and a shareholder's shares exceeding the percentages specified in the Banking Law or falling under the limits specified in such are subject to the permission of the Banking Regulatory and Supervisory Agency. It is mandatory for the shareholders directly or indirectly owning 10% or more of the capital to possess the attributes sought in the founders. The shareholders who lose such attributes or acquire shares without the permission of the board cannot benefit from the shareholder rights except for dividends. Under such a circumstance, the other shareholder rights are utilized by the Saving Deposit Insurance Fund. The Banking Law provisions pertaining to the transactions of bank shares are reserved.
**d)** The partnerships and institutions affiliated with the Bank cannot purchase the Bank's shares or cannot accept such as pledges or cannot provide advance payments in return for such.
**e)** The Bank cannot acquire or accept as pledge its own shares in an amount that exceeds 1/10 of the principal capital or shall exceed such as a result of a transaction. The provisions of the 379th article of the Turkish Code of Commerce are reserved.
**f)** In case of death, in order for the transfer transactions to be performed on behalf of the heirs of the deceased shareholders or other right holders, the decree received from the authorized court of law must be duly represented and consigned to the Bank.
**g)** Shares and share certificates in persons' names are delivered to the transferee after the transferor writes and signs to whom they are transferred and endorsed, the location and the date on the back of such.
**h)** Nominative shares, the prices of which have been fully paid, can be transferred with the approval of the Bank. The provisions of the Turkish Commercial Code pertaining to the subject are reserved.
**i)** The persons contributing in capital increase in return for cash and subscribing in such, transferring its shares to others is also subject to the provisions of this article. However, in this case, the unpaid part of the concerning share amount cannot be asked from the transferee anymore.

### Annual Meetings
**Article - 10**

The Bank's General Assembly holds stated or emergency meetings in accordance with the quorum stated in the Turkish Commercial Code of Law.

Stated General Assembly meetings are held within three months after the annual accounting year.

### Invitation to Annual Meetings
**Article - 11**

**a)** Calling the General Assembly to stated and emergency meetings is the task of the Board of Directors.
**b)** The call of the General Assembly to hold a meeting is declared at least two weeks prior to the meeting, excluding the declaration and meeting days, in at least one newspaper published at where the Bank's headquarters are located or in the Turkish Trade Registry Gazette. It is mandatory for the location, day, hour and agenda of the meeting to be provided in the notices. Also, in the Annual Meeting call notices, it is notified that the balance sheet, profit and loss statement, Board of Directors and auditor reports are ready for the shareholders to study at least 15 days prior to the meeting at the Bank's headquarters and branches.

**c)** The day, time and agenda of the Annual Meeting are notified to the shareholders at least two weeks prior to the day of the meeting and to the other authorities stipulated by the legislations together with the other documents pertaining to the meeting, if any, by the Bank's General Management by means of registered letters.

### The Right to Vote During Annual Meetings and How the Votes Are Used
**Article - 14**

The shareholders or their proxies present at the Annual Meeting have one right to vote per share.
In accordance with the provisions of the related articles of the Banking Law, the right to vote of the Saving Deposit Insurance Fund is reserved.
During the General Assembly, the votes are used by means of putting signs on them. In case required by at least 10% of the shareholders or their proxies present at the meeting, a secret vote may be held.

### The Management and Minutes of the Annual Meetings
**Article - 15**
It is mandatory for the Representative of the Ministry of Customs and Commerce to be present at the Annual Meetings. After the Representative of the Ministry of Customs and Commerce determines that the meeting quorum is in place, the meeting is opened by the Chairman of the Board of Directors, his/her proxy or one of the Members of the Board of Directors. The Meeting Council consists of a chairman, two vote collectors and a secretary to be elected by the General Assembly. When necessary, a deputy chairman, more than two vote collectors and more than one secretary may be elected. Negotiations or their summaries and the decrees are stated in the meeting minutes by the Council. The General Assembly may decide upon the meeting minute to be signed by the Council. The dissenting opinions of the shareholders or their proxies opposing the decrees are written in the meeting minute and signed by such persons. The meeting minutes are not valid until signed by the Representative of the Ministry of Customs and Commerce. The Annual Meeting Decrees bind all shareholders present or not present at the meeting, agreeing with the decrees or those dissenting or abstaining as well as

the Bank and its bodies. Shareholders' right to apply to court for the cancellation of the decrees in accordance with the provisions of the articles 433 and 445, 446, 448 of the Turkish Code of Commerce is reserved.

### Board of Directors

**Article - 16**

The Bank is represented and managed by a Board of Directors consisting of at least five members to be elected by the General Assembly. The number of members to be elected to the Board of Directors may be freely determined by the General Assembly. Legal entities can also be elected as members of the Board of Directors; in such a case, a real person determined by the legal entity participates in the Board of Directors meetings and this person is registered and declared together with the legal entity in the Trade Registry. The matters concerning the Board of Directors members are performed in accordance with the provisions of the Banking Law and the related legislations. It is lawful for the members to be reelected. The General Assembly can change the members of the Board of Directors at any time.

The Bank's General Manager with the attributes stipulated by the Banking Law and in his/her absence, his/her proxy is a natural member of the Board of Directors. Other members of the Board of Directors are elected from among people who possess the attributes stipulated by the Banking Law. The provisions of the 373rd article of the Turkish Code of Commerce are reserved.
The Board of Directors, in accordance with the article 375 of TCC, performs its duties with authorities that may not be transferred or renounced.

### The Oath Taking and Declaration of Property of the Members of the Board of Directors

**Article - 17**

The Board of Directors cannot start to perform their duties until the Chairman, Deputy Chairman and Members take oaths in accordance with the provisions of the Banking Law. The Chairman, Deputy Chairman and Members of the Board of Directors have to declare their properties according to the Banking Law. These obligations continue as their duties continue and in accordance with the terms specified in the related legislation.

### Task Distribution, Meetings and Decrees of the Board of Directors

**Article - 18**

The Board of Directors, during their first meeting following the elections, chooses a chairman and a proxy that will perform the duties of the chairman when he/she is not present.

The mandatory election of the members and their alternates who will work at the Credit Committee is reserved. The Board of Directors, when required by the works and transactions pertaining to the Bank, upon the invitation of the Chairman of the Board of Directors or his/her proxy, can meet at the Company's headquarters or another location domestic or abroad under the condition that the meeting and the location of the meeting is notified to all members of the Board of Directors in writing. It is mandatory for meetings to be held at least once every three months.

In order for the Board of Directors to hold a meeting, it is mandatory for the majority of the total number of members to be present at the meeting.

For the Board of Directors decrees, the positive votes of the Chairman, Deputy Chairman or majority of the members is required. This rule is also valid when the Board of Directors meeting is held in an electronic environment.

Any one of the Board of Directors Members can also take a decree by taking the written consent of the others to his suggestion written as a settled decree under the condition that none of the Board of Directors members request the matter to be negotiated and the suggestion is made to all Board of Directors members. Board of Directors Decrees are written in the minute book and signed as stipulated by the Banking Law.

### Representation of the Bank

**Article - 19**

The Bank is managed, represented and bound by the Board of Directors. The Banking Law and Turkish Code of Commerce's provisions concerning the regional and branch management and the General Manager being rendered authorized to represent and bind the company as well as articles 366 and 367 of the Turkish Code of Commerce are reserved.

In order for the documents, papers, bonds and signed agreements to be valid and bind the Bank, it is mandatory for them to be signed by the authorized signatories registered in the Trade Registry and declared in the Turkish Trade Registry Gazette, the locations and shapes of which have been decided upon by the Board of Directors, with their signatures provided under the Bank's title.

### The Term of Office and Fee of the Board of Directors

**Article - 20**

The members of the Board of Directors may be elected for at most three years. It is possible for the members to be reelected. The General Assembly determines the terms of office of the Board of Directors members. For the empty membership seat opened before the term of office is completed, a new member is elected in accordance with the article 363 of the Turkish Code of Commerce. The fees of the Chairman of the Board of Directors, Deputy Chairman and Board of Directors members are determined by the General Assembly.

### Forming the Credit Committee, its Authorities and Inspection

**Article - 21**

A credit committee complying with the terms specified by the Banking Regulatory and Supervisory Agency is established by the Board of Directors.

The Board of Directors has the authority to request information pertaining to the activities of the Credit Committee and to perform any and all audits it deems necessary.

In case stipulated by the Banking Regulatory and Supervisory Agency, the Credit Committee Members are required to take oaths and declare their properties.

### Decrees of the Credit Committee

**Article - 22**

The decrees of the Credit Committee are preserved as stipulated by the Banking Law and signed by its members.

### Audit Committee

**Article - 23**

An Audit Committee is established in order to help the auditing and supervising activities of the Board of Directors to be performed within the scope of the Banking Law. The Audit Committee consists of at least two members. The Audit Committee members are elected from among Board of Directors members that have no executive duties.
The duty, authority and responsibilities of the Audit Committee and its work procedures and principles are regulated by the Board of Directors.

### Assigning of the Bank General Manager and Deputy General Managers

**Article - 24**

One General Manager and a sufficient number of Deputy General Managers are elected by the General Assembly or the Board of Directors. The terms of office of the General Manager and the Deputy General Managers are not limited to the term of office of the Board of Directors.
The duties and authorities of the General Manager and Deputy General Managers are determined according to the related provisions of the Banking Law.

### The Conditions Sought in General Manager and Deputy General Managers

**Article - 25**

It is mandatory for the General Manager and Deputy General Managers to have the education level stipulated by the Banking Law; it is mandatory for the person to be assigned as the General Manager to have at least 10 years of experience in banking or administration and it is mandatory for persons to be assigned as Deputy General Managers to have at least 10 years of experience in banking or administration.

### Declaration of Property of the General Manager and Deputy General Managers and Other Authorized Signatories

**Article - 26**

In case stipulated by the Banking Regulatory and Supervisory Agency, the General Manager and Deputy General Managers and the persons with first degree signing authority stipulated by the Banking Law are mandatory to declare their properties.

### The Attributes, Term of Office, Main Duties and Authorities and Fee of the Auditor

**Article - 27**

The Bank - General Assembly - is audited by the Independent Auditing Institution it selects as the auditor and that has the attributes stated in the Banking Law, Turkish Code of Commerce and related regulations. Following the selection, the auditor is registered at the Trade Registry by the Board of Directors and published at its website.

The auditor is reselected for each accounting period and the fee is specified by the General Assembly.
Relieving the auditor of the duties or the auditor terminating the agreement is only possible within the framework of article 399 of the Turkish Commercial Code.

The auditor is liable to perform the auditing of the financial statements of the Bank and the annual activity report of the Board of Directors within the context of the principles specified by the Public Oversight, Accounting and Auditing Standards Institution and in accordance with the provisions of the Banking Law and the Turkish Code of Commerce and related regulations and to prepare the audit reports and the letter of opinion and to present such to the Board of Directors.

In case a negative opinion is provided by the auditor, the Board of Directors calls the General Assembly to a meeting in four days following the letter of opinion being delivered and the General Assembly elects a new Board of Directors. It is possible for the previous Board of Directors members to be elected. The elected Board of Directors has financial statements prepared in compliance with the regulations in six months and presents these to the General Assembly together with the audit report.

The auditor is liable to perform the duties in an honest and objective manner and to keep secrets.

The auditor, after being selected for a total of seven years in 10 years, cannot be elected as the auditor again until three years passes.

Other provisions of the Banking Law and the Turkish Code of Commerce concerning the auditor are reserved.

### Accounting Period

**Article - 29**

The accounting period of the bank is a calendar year.

### Determination of the Net Profit for the Period

**Article - 31**

The amount is obtained by deducting the legal tax that must be paid from the pre-tax profit obtained by clarifying the ordinary and extraordinary income and expenses accrued as a result of the activities performed by the Bank in the accounting year.

### Appropriation and Distribution of the Net Profit for the Period

**Article - 32**

The net profit for the period of the Bank is appropriated and distributed after the legal and financial liabilities amount is deducted.

From the net profit for the period;
**a)** 5% can be appropriated for the General Legal contingency reserves,
**b)** An amount (First profit share) which is equivalent to 5% of the Bank's paid in capital is allocated for the shareholders to be distributed in proportion to the capital they paid, and of the remaining net profit,
**c)** Maximum 5% can be appropriated to the Board of Directors members and delegates including the General Manager by the General Assembly,
**d)** Following the appropriations and distributions specified in the paragraphs above, from the remaining net profit, a percentage and amount (Second profit share) are allocated for the shareholders to be distributed in proportion to the capital they paid.
**e)** 1/10 of the profit shares stipulated to be distributed in accordance with the paragraphs (c and d) of this article are added to the General Legal contingency reserve in accordance with article 519/c of the Turkish Code of Commerce.
**f)** The General Assembly, after discriminating and appropriating the contingency reserves stated in paragraph (a) of this article and the profit shares in paragraphs (b and c), is authorized to transfer the full amount or partial amount of the net profit to the following year or to allocate it for the excess reserve. If it deems necessary, it may make suggestions to the General Assembly pertaining to such.
**g)** The matter as to how the profit share appropriated to the Board of Directors members and delegates in accordance with paragraph (c) of this article shall be appropriated is determined by the Board of Directors.
**h)** Profit share is only paid from the net profit. The profit share cannot be distributed until the contingency reserves specified in paragraph (a) of this article are allocated.
**i)** The date on which the profit shares shall be distributed in accordance with the provisions of this article are determined by the Board of Directors.
**i)** The first and second profit shares to be paid to the shareholders as a result of capital increase are calculated according to the last day of payment of the called up capital concerning the non-collected capital.
**k)** The profit shares distributed in accordance with the provisions of these articles of incorporation cannot be taken back. The provision of the 512th article of the Turkish Code of Commerce is reserved.

### Contingency Reserves

**Article - 33**

Legal contingency reserves are appropriated by the Bank until the reserves reach 20% of the Bank's capital. In case the amount of the contingency reserve reaching up to 20% of the Bank's capital is diminished for any reason, contingency reserve continues to be allocated until the mission portion is replaced.

Unless the General Legal contingency reserve exceeds half of the principal capital, it may be spent in order to particularly offset losses, continue the work when business is not good and to take precautions that are suitable to prevent unemployment or the results of such. Until the amounts that must be allocated according to legal and voluntary reserves and the Articles of Incorporation are paid, profit cannot be distributed to the shareholders.

### Notifications

**Article - 34**

**a)** Under the condition that the matters held mandatory by the legislations published in the Turkish Trade Registry Gazette are reserved and otherwise is not stipulated by law, the notices, taking the legal time periods into consideration, are performed by being published in one of the daily newspapers published where the Bank's Headquarters are located.
**b)** It is mandatory for a sample of the balance sheets and the profit and loss statement approved by the auditor to be notified by a gazette published nationwide as well as the Official Gazette in one month following the Annual Meeting during which the documents are approved.

### Annual Reports and Accounts

**Article - 35**

The Bank, in one month following its meetings, sends three copies of the shareholders list of participants, balance sheet and profit and loss statement to the Ministry of Customs and Commerce.

It is also possible for these to be consigned to the authorized representative of the Ministry of Customs and Commerce participating in the meeting.

In accordance with the provisions of the Banking Law, it is mandatory for the balance sheet and profit and loss statement to be approved by the Auditor and to be sent to the Banking Regulatory and Supervisory Agency and the related authorities.

### Consignment of the Articles of Incorporation

**Article - 36**

The Bank shall publish these Articles of Incorporation and distribute them to the founders, the new shareholders who shall be participating in the capital increase and consign two copies to the Ministry of Customs and Commerce and the Under Secretariat of Treasury and Foreign Trade

### References to Legal Provisions

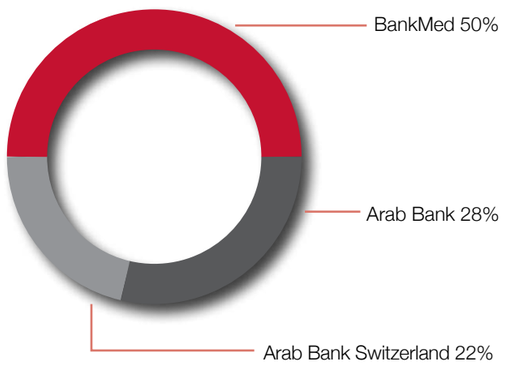
**Article - 37**

In case concerning provisions cannot be found in these Articles of Incorporation, the provisions of the Turkish Code of Commerce and the related legislation are applied. In case of changes in the Law and the Statutory Decrees and the related regulations, the changed provisions of the regulations shall continue to be applied.

T-Bank benefits from the extensive banking experience that its shareholders, Arab Bank and BankMed enjoy. Their deep-rooted expertise in the various corporate banking sectors, which dates back to the 1930s, provides T-Bank with an added value, allowing it to attend to its customers' needs and service them in the best ways.

## Shareholders' and Capital Structure

**As of April 18, 2013, T-Bank's paid in capital is TL 500 million.**




| | Capital | Percentage | Number of Shares |
|---|---|---|---|
| BankMed, SAL | 249,999,998.24 | 50.0 | 2,499,999,982 |
| Arab Bank, PLC | 141,666,665.84 | 28.3 | 1,416,666,659 |
| Arab Bank Switzerland | 108,333,333.33 | 21.7 | 1,083,333,333 |
| Other Shareholders | 2,59 | | 26 |
| Paid in Capital | 500,000,000.00 | 100.00 | 5,000,000,000 |

**BankMed**

Established in 1944 and headquartered in Beirut, BankMed is one of the top banks in Lebanon. Through its 61 branches within Lebanon, one in Cyprus, and two in Iraq, the Bank offers a wide range of products and services to individuals and corporations. Along with its subisidiaries and affiliated institutions, BankMed provides services across various business lines, particularly private banking, asset management, brokerage, and investment banking.

BankMed's role in financing commercial, industrial, and contracting activities has contributed to the growth of these sectors and the resurgence of the Lebanese economy since 1990. Recently, BankMed has focused on enhancing its Small and Medium Enterprises (SME) business, which is an important segment of the Lebanese economy. In addition, the Bank has significantly boosted its retail banking operations and introduced brokerage and investment banking services to meet its growing clients' and investors' demands.

BankMed's operations extend to Turkey, through T-Bank; to Switzerland, through its fully owned private banking subsidiary BankMed Suisse; as well as Saudi Arabia, through SaudiMed Investment Company, one of BankMed's investment banking arms.

As at Decemeber 2013, BankMed's total assets stood at USD 13.8 billion, its customers' deposits totaled approximately USD 11.0 billion, and its total loans were more than USD 4.5 billion.

Through its expansion plan, BankMed aims at diversifying its income resources by entering markets where it identifies a potential for growth. The target markets provide BankMed with the appropriate platform to become a competitive player in the financial system with a number of strategic loactions throughout the MENA region.

**Arab Bank**

Established in 1930, Arab Bank, headquartered in Amman, Jordan is the largest global Arab banking network with over 600 branches in 30 countries spanning five continents. Arab Bank is also present in key financial markets and centers such as London, Dubai, Singapore, Geneva, Paris, Frankfurt, Sydney, and Bahrain.

Arab Bank provides a wide range of financial products and services for individuals, corporations, and other financial institutions. The Bank's products and services cover Consumer Banking, Corporate and Institutional Banking, as well as Treasury services. In 2013, Arab Bank Group achieved net profits before tax of USD 741.4 million, total assets equaled to USD 46.4 billion, while owners' equity reached USD 7.8 billion.

Arab Bank received many international awards and recognitions in 2013 including Regional Bank of the Year from Arabian Business, Best Bank in Jordan from Euromoney for the sixth consecutive year, and Best Bank in Jordan from EMEA Finance. Arab Bank also received Global Finance magazine's awards for Best Trade Finance Provider in Jordan and Yemen, Best Emerging Market Bank in Jordan and Yemen, Best Foreign Exchange Provider in Jordan, Best Consumer Internet Bank in Jordan, and Best Corporate Internet Bank in Qatar. In addition, Arab Bank was also recognized with the Best Cash Manager in the Middle East award from Global Investor magazine, which is published by Euromoney. Other recognitions include the Asian Banker's Strongest Balance Sheet in Jordan award as well as Corporate Finance International's Best Commercial Bank in Jordan award.

**Arab Bank Switzerland**

Arab Bank (Switzerland) Ltd. started its operations in Zurich in 1962 and established a branch in Geneva in 1964. It is a Swiss-registered bank , which is managed fully out of Switzerland, independently from its Jordan-based sister entity, Arab Bank plc. although it shares the same shareholding base as the latter.

Arab Bank (Switzerland) Ltd. has, since inception, focused primarily on offering private banking services tailored to the needs of its Middle-Eastern clientele as well as commercial services, mainly Trade Finance, to facilitate flows between Switzerland and the MENA region. The Bank earned over the years the trust of its esteemed clients and forged a reputation of a safe and reliable financial partner, building over time one of the highest capital bases, relative to its size, amongst all banks in Switzerland.

In 2010, the Bank undertook a two-year restructuring program which resulted in the Bank upgrading its operating platform and capabilities, expanding its products and services suite, reinforcing its well established position in private banking, and moving its Head Office to Geneva closer to its client base. As a result, the Bank managed to build a name for itself in the Commodities Trade Finance arena, with plans to continue its rapid expansion in this key business area in the coming few years.

## The Shares Owned by the Chairman of the Board, Members of the Board of Directors, the General Manager and Vice General Managers

The Chairman and the Members of the Board of Directors and the General Manager and Deputy General Managers have no shares in T-Bank as of December 31, 2013.

# Chairman's Message

The growing customer portfolio clearly reflects T-Bank's strategy to continue developing its relationships with existing clients and to expand its client base.

The gradual recovery of the U.S economy in 2013 has led the U.S Federal Reserve to lower the pace of bond purchases, a process that has come to be known as "tapering", resulting in capital outflows from emerging economies. These developments posed challenges to emerging economies with high current account deficits such as Turkey. Additionally, the Eurozone, Turkey's largest importer, barely realized any significant growth.

Inspite of these developments, the Turkish economy succeeded at achieving an estimated 4% growth rate during 2013. However, this economy, which has been growing for 16 consecutive quarters, is expected to experience lower growth in 2014. The proactive measures and the revision of monetary targets undertaken by the Turkish Central Bank will positively influence the money markets as well as the Turkish banking sector going forward.

In this context, the Turkish banking industry recorded solid results during the year. The industry's total assets increased by 26.4% and reached TL 1,732 billion. The loans-to-assets ratio increased by 2.5 percentage points and reached 60.5%. In addition, foreign funding increased by 23.7% and reached USD 138.2 billion. By the end of 2013, total shareholders' equity reached TL 194 billion, an increase of 2.6%, and net profit increased by 5.1%. The banking sector maintained its strong capital structure with a capital adequacy ratio of 15.3%, reflecting adequate liquidity. The growing customer portfolio clearly reflects T-Bank's strategy to continue developing its relationships with existing clients and to expand its client base. This has been achieved by attracting new customers, focusing especially on small and medium enterprises (SMEs).

T-Bank's financial results reflected these achievements. With the capital increase in 2013, T-Bank's capital reached TL 500 million, and the capital adequacy ratio was reported at 15.85%. In the coming year, the Bank plans to continue growing its balance sheet and expand its branch network to new strategic commercial areas.

T-Bank believes that its employees are its most valuable asset. We will continue to invest in our human resources' professional development in order to ensure that our staff has the necessary skills to provide our clients with the best possible service. Our customers will remain our priority and we will continue addressing their needs since they are the central focus of every operation we do.

In closing, I would like to extend my heartfelt appreciation to our customers for their trust, our shareholders for their continuous support, our employees for their distinguished capabilities and commitment, and to all our partners for supporting us in every step of the way. I believe that we are well positioned for further sustainable growth in 2014.

**Nemeh Sabbagh**
**Chairman**

# CEO's Message

In the forthcoming period, we will continue to strengthen our relationships with existing customers and proceed with our expansion plans supported by our shareholders and based on a well-planned long-term strategy.

Despite the numerous challenges faced by the Turkish economy in 2013, T-Bank continued to take cautious steps while implementing its strategy. This vigilant approach enabled the Bank to realize some tangible achievements and sustain its growth.

During the year, T-Bank strengthened its position in financing SMEs. The Bank's loans in Turkish Lira, provided to SMEs, grew by 49%. Cash and Non-cash loans to the manufacturing industry increased by 27% and 26%, respectively reflecting the Bank's continuous commitment to support this sector. Within the same context, T-Bank continued to exert efforts to provide new financing alternatives to SMEs.

T-Bank is committed to offer services to Turkey's strongest industrial regions. Although loans to the service and industry sectors continued to hold an important position in the Bank's loan portfolio, loans to the construction sector maintained a relatively stronger share.

T-Bank had a successful year expanding its international trade finance portfolio. The Bank continued to provide various solutions to customers throughout the Middle East, North Africa and Europe. In 2013, the Bank mediated a number of international trade transactions amounting to around USD 400 million. Going forward, T-Bank will continue to support its customers who are involved in international trade, providing them with customized solutions to facilitate and add value to their business operations.

T-Bank's financial results reveal that the Bank is in-line with the growth momentum of the Turkish banking sector. In 2013, total assets increased by 39% to reach TL 4.1 billion and the loan portfolio grew by 32% to reach TL 2.7 billion. Total deposits increased by 32% reaching TL 2.8 billion, and net interest income increased by 9%. Net profit amounted to TL 14.4 million recording a 13% increase. Furthermore, the Non-Performing Loans ratio decreased to 2.70% from 3.4% in the previous year, providing a solid indication of the Bank's prudent risk management approach.

Moreover, in order to maintain efficient operations and deliver superior customer services, T-Bank continued to invest in information technology in 2013. In this regard, the Bank introduced an innovative state-of-the-art Core Banking System to enhance its performance and support its growth strategies.

In the forthcoming period, T-Bank will continue to strengthen its relationships with its existing customers and proceed with its expansion plans supported by its shareholders, based on a well-planned long-term strategy.

I would like to thank our customers for their loyalty, our Board of Directors and shareholders for their continuous support and contributions, and our devoted and hardworking employees for their dedication.

**Dinçer Alpman**
**CEO**

# SECTION II

## Operations

T-Bank has implemented an ambitious growth strategy over the last few years, which allowed it to expand its operations with greater efficiency. The Bank's plan is to continue growing its portfolio by widening its presence and by targeting all components of the supply chain.

T-Bank continues to provide solutions that meet its customers' needs within a "boutique service" approach through 27 branches located in Turkey's leading industrial and commercial centers.

## T-Bank is Turkey's Boutique Bank

Through its sustainable growth strategy, T-Bank continues to provide solutions that meet its customers' needs within a "boutique service" approach through 27 branches located in Turkey's leading industrial and commercial centers.

T-Bank continued to strengthen its position in the commercial sector with the expertise it has gained in treasury and cash management as well as investment services and trade finance. The Bank extends this solid experience to elevate its service and product quality as well as support its customers' satisfaction and loyalty. By turning its wide correspondent banking network in the Middle East and the North Africa region into an important competitive edge, T-Bank continues to develop long-term relationships with banks that provide important value-added services in terms of scope and quality that supports its financial structure.

**Dynamic Organizational Structure**

In order to meet its customers' changing needs, T-Bank offers timely and specialized solutions in addition to high value-added services and products that strengthen its position in the banking sector. T-Bank takes advantage of its mid-sized banking position to efficiently support its "boutique service" approach in order to strengthen the relationships it developed with its customers, while continuing to improve the efficiency of its business processes.

In 2013, based on its customers' feedback, T-Bank developed a set of innovative solutions along with an array of products and services that further enhance its banking activities. Moreover, the Bank continued to develop its customer portfolio throughout the year by attracting new clients from various sectors. Today, T-Bank continues to use efficient proactive marketing strategies to diversify its portfolio.

Moving forward the Bank plans to further develop its market share and expand its client base as well.

**Efficient Branch Network**

In 2013, T-Bank continued to perform its activities within the "boutique service" approach through its 27 branches. The Bank intends to widen the scope of its services by opening additional branches in industrially developed regions and provinces, particularly in active city centers. The Bank plans on fulfilling its growth goals by acquiring new clients, while maintaining the delivery of unique products that carefully meet the needs of the different segments of its current customer base.

### Review of 2013 Operations

**Valuable Synergy of Experienced Shareholders**

T-Bank benefits from the international experience of its shareholders, Arab Bank, BankMed, and Arab Bank Switzerland. This valuable synergy provides T-Bank with significant opportunities and enables it to extend its trade activity throughout the Middle East and North Africa region. The growth experienced within this region allowed T-Bank to expand and become one of the leading institutions with such regional experience in Turkey. In fact, due to this strong perception, the Bank has succeeded in attracting more Turkish investors, who seek to conduct trade operations in this region.

**Segmental Expertise**

In order to provide a superior level of service quality, T-Bank divides its customer portfolio into two segments Small and Medium Enterprises and Corporate Banking. The Bank's SME customers consist of small and medium-sized local manufacturing and trading companies with an annual turnover between TL 1.5 million and TL 25 million. The Bank also targets suppliers and manufacturers within its SME portfolio. Customers within the scope of corporate and commercial banking activities consist mainly of companies with high-turnover rates, whose activities encompass: manufacturing, tourism, construction, energy and logistics. These customers usually seek a financing support which they can also utilize in their foreign trade operations. During 2013, the corporate customer portfolio constituted 20,2% of the total portfolio produced by T-Bank while the percentage of SMEs customers amounted to 31,6%. Moving forward, T-Banks aims to further strengthen the share of the SMEs in the Bank's total loans.

**Detailed Credit Facility Process**

T-Bank's credit facility process operates in two phases. In the first phase, a detailed analysis of the financial data is performed using measurements based on cash flow, projections, feasibility, capacity report rating etc. Additionally, market share, the current status of the relevant sector, product/service type, and many other criteria are analyzed in a detailed manner. T-Bank relies on criteria such as financial data, market intelligence, company's past and expected performance during the analysis phase.

During the second phase, credit applications are escalated for approval. Within this scope, T-Bank provides solutions that align with the company's needs. These solutions are offered after a detailed assessment of the sector, financing investment, operating capital, foreign trade and other requirements of the company requesting a loan. T-Bank maintains an objective outlook toward all sectors during the credit facility process, providing funding opportunities to all sectors without adding a risk of concentration. The Bank creates working criteria for sectors that have a share of 5% and above in the total credit with the "Risk Acceptance Criteria" and performs its operations within the framework of these criteria.

**High Asset Quality**

With a customer portfolio consisting of companies with strong financial track record in terms of profitability and credibility, T-Bank enjoys a privileged position in the Banking sector. The Bank selects its clients cautiously during the marketing activities performed in order to expand its client base. In this regard, the Bank displays a great deal of effort in an aim to protect its current asset quality. T-Bank shall continue to develop and diversify its customer portfolio in 2014 to include an additional number of successful companies working in different sectors and in line with this approach.

**A Pioneer in Cash Management**

Backed by its customer base, T-Bank continues to provide a wide range of cash management services in a manner that ensures profitability. Efficient cash flow supports the growth of corporate banking activities and creates an income resource. This is attributed to the Bank's ability to attract and retain commercial deposits.

**Credit Portfolio Distribution According to Sectors (December 31, 2013 - TL Thousand)**

| | Cash Credit | | Non-cash Credit | |
|---|---|---|---|---|
| **Sector** | **Total** | **%** | **Total** | **%** |
| **Agriculture** | **134.463** | **4,97%** | **36.848** | **1,89%** |
| Farming and Stockbreeding | 124.771 | 4,61% | 35.701 | 1,83% |
| Forestry | 9.692 | 0,36% | 1.128 | 0,06% |
| Fishing | 0 | 0,00% | 19 | 0,00% |
| **Industry** | **874.720** | **32,34%** | **571.847** | **29,38%** |
| Mining | 129.958 | 4,80% | 55.519 | 2,85% |
| Manufacturing | 738.588 | 27,31% | 508.054 | 26,10% |
| Electricity, Gas and Water | 6.174 | 0,23% | 8.274 | 0,43% |
| **Construction** | **503.398** | **18,61%** | **536.809** | **27,58%** |
| **Service** | **993.865** | **36,75%** | **690.770** | **35,49%** |
| Wholesale and Retail Trade | 296.437 | 10,96% | 280.417 | 14,41% |
| Hotel and Restaurant Services | 187.294 | 6,92% | 17.002 | 0,87% |
| Transportation and Communication | 169.718 | 6,28% | 63.817 | 3,28% |
| Financial Institutions | 160.251 | 5,92% | 159.751 | 8,21% |
| Real Estate and Rental Services | 86.863 | 3,21% | 5.324 | 0,27% |
| Self-Employment Services | 46.306 | 1,71% | 135.385 | 6,96% |
| Training Services | 1.676 | 0,06% | 205 | 0,01% |
| Health and Social Services | 45.320 | 1,68% | 28.869 | 1,48% |
| **Other** | **198.218** | **7,33%** | **110.058** | **5,65%** |
| **TOTAL** | **2.704.664** | **100,00%** | **1.946.332** | **100,00%** |

# Backed by an experienced SME Banking team, T-Bank continues to deliver tailor-made products and services to small and medium enterprises.

**Corporate and Commercial Banking**
T-Bank's corporate customer portfolio is comprised of publicly held companies and financial institutions in addition to commercial and industrial corporations, service sector companies, transportation and construction, as well as contracting companies.

Within the scope of its Corporate Banking activities, T-Bank provides services to companies with turnovers over TL 15 million. In addition, T-Bank offers services to a number of Turkey's leading industrial companies with high export potentials such as iron and steel, textile, and food industries, which are included in the Bank's Corporate Banking portfolio.

T-Bank's Corporate Banking staff provides personalized solutions that meet the financial requirements of its customers through all of the Bank's branches. The qualified staff members carefully evaluate the customers' requirements and produce customized solutions that prudently address the client's needs. The active participation of T-Bank's staff and managers has served as the cornerstone for the long-term relationships that the Bank has maintained with its customers.

With a strong financial structure and sustainable steady growth, T-Bank continues to be one of Turkey's most reliable banks.

The Bank pays equal attention to risk-reward balance as well as profitability. Within the same framework, cash management, project financing, cash and non-cash credits as well as financing of the foreign trade are also important focal points for Corporate Banking.

Empowered by its shareholders' established international experience, its corporate structure, and quick decision-making process, T-Bank continues to provide financial services in the Middle East and North Africa.

In 2014, and in line with its expansion plan, T-Bank plans to open several new branches in order to draw closer to its corporate customers and support their needs. Through this step, the Bank aims to target new enterprises in the manufacturing, industrial, and other sectors in the related economic fields within its corporate portfolio.

**SME Banking**
Backed by its expert SME Banking staff, T-Bank continues to deliver appropriate services and suitable products to small and medium enterprises. In all of T-Bank's 27 branches, SME Banking continues to perform its operations in line with the Bank's strategy, targeting companies and proprietorships with net sales varying between TL 15 and 25 million that benefit from T-Bank's SME Banking services. T-Bank also provides special products and applications to SMEs with projects, performing exportation, and working with a focus on investment and growth.

The main feature that differentiates T-Bank from others lies in the way through which the Bank combines relationship banking together with its developed banking products. T-Bank utilizes this facet efficiently and aims to acquire new customers by extending its presence in Turkey's industrialized zones and provinces, where production is widespread and commerce is active.

T-Bank carries out its customer relations in the SME Banking field within a tailor-made approach. As a result, customized products and solutions are created to cater for individual clients' needs. The quick and effective customer-oriented solutions are performed with the same degree of sensitivity and service quality, ensuring customers' satisfaction.

With their established experience in the various fields, T-Bank portfolio managers work with the goal of providing customers with the most suitable products. T-Bank's young and dynamic staff follows global, regional, and the local economy closely, and processes the acquired data by presenting it in a format that can be useful to the SMEs. The staff leads the way by offering T-Bank's SME clients with the necessary support, which helps them make educated decisions that will positively affect their operations.

The close relationship that results from this process increases the trust and satisfaction of T-Bank's customers. The Bank's General Management adopts this method as a basic principle; it works closely with the branches to ensure the Bank's SME clients are being provided with the necessary feedback. T-Bank has successfully turned the synergies it has built with clients into strong business relationships. This is underpinned through the Bank's regular communication with SMEs and continuous visits to their locations, an act that has always been welcomed by the clients.

Today SMEs are making more conscious decisions when managing their financing needs compared to the past. T-Bank continues to support the SMEs in their common needs such as cash foreign exchange, foreign exchange loans, foreign trade payments, letters of guarantee, project and investment financing and time deposits and investment products providing facilities on short-term as well as long term basis.

T-Bank allows its SMEs to benefit from the products offered by institutions that produce special financing alternatives, such as KGF, KOSGEB and EXİMBANK. The "KOSGEB Co-financing Credit" product, which was extended in the last quarter of 2013 in accordance with the agreement made with KOSGEB, provides a new solutions for SMEs.

In order to grant its customers the optimal access to services and products, T-Bank is keen on staying up-to-date with technological innovation, working constantly on upgrading and developing its services to meet the clients' evolving needs. Through the optimized services, which cover various areas, clients can access SGK payments, checkbooks, wage payments, bill payments, treasury bonds and cash management.

Moving forward, T-Bank plans to focus further on SMEs in 2014, and it shall continue to structure itself in accordance with SMEs' requirements. The Bank will continue to act as an intermediary for SMEs providing its clients with long-term loans and facilitating purchases.

**Credit Allocation**
T-Bank's Credit Allocation Department determines the credit strategies, policies and procedures of the Bank. The Department also executes tasks such as credit assignment, measurement of risk, and the monitoring, performing the controls of, and reporting of credit assignments. The Credit Allocation Department provides services in four fields of expertise formed in accordance with the needs of different customer segments and sectors:

*(*) OBİ Bankacılığı ile ilgili tanım Banka içi limitler dahilinde bankanın kendi OBİ tanımlamasını ifade etmektedir.*

By turning its wide correspondent banking network in the MENA region into an important competitive edge, T-Bank continues to develop long-term relationships with banks that provide important value-added services in terms of scope and quality that supports its financial structure.

- Corporate/Commercial
- SME
- Construction/Contracting
- Personal Loans

T-Bank meets the credit requests of its customers with the most innovative solutions and utilizes new ideas, products, and technologies to provide easier access to information during the credit facility process. For this purpose, both in an organizational sense and in terms of technology and presentation techniques, a special emphasis is taken for innovative products to be utilized. T-Bank works with a team of experts in the contracting sector during the credit facility process and develops products based on a workflow system, segmentation based rating system, credit archiving system, trade registry system, and KKB .

**Customer-Centered Approach**

T-Bank applies the "boutique service" approach without compromising its risk centered management criteria. Focusing on the financing requirements of the companies performing activities in the MENA Region, T-Bank continues to specialize in the contracting sector. The Credit Allocation Department works in collaboration with the Bank's Marketing Group and is keen on making frequent customer visits. This provides a great competitive advantage in terms of the quick decision-making process. T-Bank evaluates the customer requests more efficiently on location and provides suitable limits and credit conditions within a comfortable working environment for its customers. The Bank's target customer base includes companies that provide added value, are prone to a healthy relationship, have the ability to pay back their loans, and are faithful to ethical values. The products and activities utilized in the Credit Allocation activities have been shaped under a "Technological Structure," "Early Warning System," and "Scoring and Rating Models" framework.

**Technological Structure**

In 2013, the transition to the New Core Banking System has been completed. The Banking System, with the advantage of being a quick and easily scalable system, supports short and long-term growth strategies and also provides fast product development and product diversification with its parametric infrastructure. The system also performs beneficial functions such as monitoring flow system integration with credit utilization differentiation control, black list controls, automation of legal reporting, limits, customer and account relationships, new monitoring system, and automatic monitoring mechanism.

**Early Warning System**

T-Bank can limit its credit risk with its Early Warning System, which highlights most risks before the they are created. With regular customer visits and portfolio scanning operations, T-Bank performs proactive monitoring. These aspects allow the Bank to ensure early detection of problems as a result of the credit management that is performed in close relationship with the customer.
The data collected from the market and certain information resources concerning the company are consolidated and utilized as an early warning signal during both the assignment and the monitoring process. In case the risk level of the credit debtor increases, the credit limits are re-determined or additional collaterals are requested.

The Credit Allocation Department monitors all steps of the credit process together with the Credit Allocation team. It provides information to the allocation departments and the branches when necessary; in addition, it creates reports concerning the credits.

**Scoring and Rating Models**

T-Bank utilizes a scoring and rating model that is in compliance with the BASEL II criteria for the SME and the Corporate/Commercial segments. This model contributes to credit decision process and also performs important functions providing detailed credit analysis and higher added value in credit facility processes. The rating model, which was enhanced with the validation work completed in 2011, played a significant role in increasing the quality of the Bank's credit in 2013.

**Treasury**

T-Bank's Treasury Department performs the management of the liquidity, foreign exchange position and the stocks and bonds portfolio in accordance with the Bank's requirements, the market risk limits specified by the Board of Directors, and the corresponding bank transaction limits.

In compliance with the prudent management approach of the shareholders and the Bank's customer-centered strategy, the stocks and bonds portfolio of the Treasury Department constitutes a small portion of the balance sheet compared to the Loan Portfolio. The Board of Directors has limited the share of the securities portfolio to 20% of total Assets. The contribution of the Treasury Department to the profitability of the bank mainly takes place through the securities portfolio. Treasury products are provided through the branch distribution channels in alignment with the customers' requests.

The Treasury Department informs the Bank's senior management at the Assets and Liability Committee (ALCO) meetings concerning the market conditions, asset-liability redemption, interest structure, and the balance sheet management within this framework.

**Financial Institutions**

The Financial Institutions Department is responsible for managing and developing the relationships with foreign correspondent banks and financial institutions, diversifying the Bank's fund resources and financing the foreign trade.

T-Bank meets its own financing requirements and those of its customers by obtaining credit limits from international banks and export credit institutions. With its strong correspondent banking network with more than 150 institutions in 50 countries, T-Bank extends its correspondent banking network to new regions in accordance with the customers' requests and provides customer specific solutions.

T-Bank mediated USD 400 million worth of foreign trade in 2013. In addition to non-cash services such as letters of credit and letters of guarantee. It also provided cash resources by mediating for products such as foreign trade financing from correspondent banks, working capital loans, and term loans in order to meet the needs of its customers. Arab Bank PLC and BankMed sal, the main shareholders of

T-Bank, continue their operations with over 650 branches in 30 countries around the globe, most of which are located in the Middle East and the North Africa region. This synergy created by the main shareholders provides T-Bank with an important competitive edge in foreign trade financing. This also ensures that the Bank's customers, who perform activities in these regions, can be provided with quality foreign trade financing at competitive prices while significantly increasing operational profitability.

**Information Technology**

The Information Technology (IT) Department employs the latest developments in technology to serve the Bank's employees and customers in order to facilitate the work processes in a more efficient manner.

**Efficient System Architecture**

The Banking System located at T-Bank headquarters uses two database servers with a high performance IBM P6 processor that has growth capacity and an EMC Symmetrix storage device, and runs on three application servers. The system, structured as a multi- layered system, provides a secure infrastructure during the application phase.

While the main operational server system in the Bank is Unix based, Windows and Linux platforms are utilized in other servers and personal computers. On a database basis, in the Core Banking System, Oracle Server 10g is utilized while on the peripheral systems, an SQL Server is used. For emergency situations, another database server that is kept identical to the active servers in real time, and the back-ups of other critical services are present at the Disaster Recovery Center located in Istanbul.

At T-Bank, Microsoft Active Directory is used as the system infrastructure. Accordingly, Cisco systems are utilized for the branches and the Head Office network connection and IBM servers are utilized as the server's. Lotus Notes systems are used for e-mail and workflow systems infrastructure. These systems constitute the infrastructure for the electronic communication inside and outside the Bank as well as the workflows and software required for the workflow software and office automation systems of the Basic Banking System.

Another important matter, handled by the Information Technologies Department, is IT security. A checkpoint is utilized as a firewall, Websense is used for content filtering and web security, and Trend Micro and Cisco IRONPORT are utilized for virus protection and e-mail security. In accordance with the agreement concerning security, the latest technology must be used in order to ensure information technology data security. Within the context of this approach, IT software are updated on regular basis.

**Applications for the Year 2013**

T-Bank Banking System consists of applications positioned within the framework of the Main Banking System and unified by integrations.

In 2013, new state-of-the-art CORE, CRM and Treasury applications were implementeds. T-BANK is the first bank that utilized these applications in Turkey. The new system will support the Bank's short and long-term strategies and provide fast product development and product diversification possibilities with its parametric product infrastructure.

The system provides innovations such as functionally efficient support, creating limit, customer and account relationships, additional blacklist controls, differentiation monitoring system, integration with systems such as Reuters and Swift, additional approval, and security systems. T-Bank increased its transaction types by renewing its Internet Banking software in 2013 and created a more secure, technologically advanced system.

While the Institution, Tax, and SGK Collection application was developed with new collection types, innovations and improvements were made in applications such as EFT, E-seizure and KKB Query. The automation of the services provided by the Information Department was ensured by the HP Open-view application; automatic monitoring/warning systems were created and change management workflows were engaged.

In accordance with the application changes, the data warehouse model was revised, all application data was consolidated in a single database, and the necessary infrastructure was created for new reporting. As a result of this process, all reports were rewritten for new applications. The Legal Reporting Project applications, which grants users an immediate automatic access to legal reports was successfully launched in 2013.

For all these applications, the server, back-up system capacities, and technologies investments for business continuity were also improved and updated. In addition Disaster Recovery at the Center in Izmir were also updated.

# Human Resources

**The Human Resources Structure**

T-Bank's most important resource is its qualified and experienced staff. The Human Resources Department, which plays a strategic role in the Bank's operations, performs its human resources practices in accordance with the Bank's strategies and goals. As of the end of 2013, T-Bank had 535 employees within its service network supporting its Head Office and 27 branches.

**Employment Process**

At T-Bank, Human Resources practices are based on openness, efficient communication, and equality. The main goal during the employment process is to choose the right person for the right job. For this purpose, taking into consideration the characteristics that the task requires, experienced or to be trained personnel are selected.

The recruitment process is carried out in several phases.

First, written exams are given in mass employment programs to the candidates, and then successful applicants are invited to group and personal interviews by the related business line units. To employ experienced candidates, the "Human Resources Employment Team" and the managers of the related business line are involved in the selection process.

Following the personal interviews, pre-employment evaluations for the positively reviewed candidates are conducted, offers are made, and the employment process is completed. During this process, evaluation tools such as a foreign language test and personality assesment as well as group interviews and qualification based interview methods are used in accordance with the requirements of the vacant position.

T-Bank continued the online interviewing process it initiated in 2012 using the latest technologies and most efficient methods. Online interviews have facilitated the employment processes especially for out-of-town branches.

T-Bank also continues to increase the employee satisfaction and speed the employment processes with the "Suggest a Friend" project it launched in 2013. Within the scope of the application, the employees who would like to suggest candidates for an open position, ensures that the candidate applies through the website or the candidate database. Candidates that have been deemed suitable for the position are evaluated according to the Employment and Placement Procedure, and the employment decisions are given accordingly.

T-Bank's human resources grew in 2013 with new employees added to its staff. 42 experienced personnel were employed as Portfolio Managers at the branches, and 59 new experienced and to-be-trained personnel joined the non-marketing departments of the branches and the Head Office. T-Bank places a lot of importance on internship programs. It provided, in this regard, internship opportunities to 38 students and contributed to their education and development.

**Performance Management**

Performance evaluation is carried out by measuring the employees' contributions to business results. Competency assessments are conducted in alignment with the Bank's goals and strategies. The obtained results are used for structuring the employees' career and training plans. Employees, who are successful at their tasks and have maintained performance viability, may be promoted to

**Number of Employees and Branches**

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Head Office Employees | 241 | 228 | 215 | 226 | 199 | 190 |
| Branch Employees | 294 | 296 | 281 | 284 | 265 | 267 |
| Total Number of Employees | 535 | 524 | 496 | 510 | 464 | 457 |
| Number of Branches | 27 | 27 | 27 | 27 | 25 | 25 |

**Demographic Information**

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Men (%) | 48 | 51 | 52 | 53 | 51 | 51 |
| Women (%) | 52 | 49 | 48 | 47 | 49 | 49 |
| Average Age of the Employees | 36.7 | 36 | 36 | 35 | 35 | 34 |

higher positions, based on the approval of the Promotion Committee. The Bank's internal promotion rate in 2013 was 8%.

In order to improve its service quality, T-Bank has been using surveys such as, "Internal Customer Satisfaction" and "Employee Loyalty" for the past five years.

The Bank also develops simulation and assessment exercises that support the personal development of the employees. In addition to feedback generating exercises, T-Bank applies coaching programs targeted toward creating awareness among employees.

### Incentive System

The Bank makes incentive payments once a year according to the annual targets achieved. The incentives are provided to the managers and other senior administrators, depending on their branch/department targets and their individual qualifications.

For managers and higher level administrators employed at the Head Office, an evaluation is performed by the manager, who is one level senior to them. The incentive amount is determined by considering the yearly performance and its effect in helping the Bank reach its targets into consideration. For Branch Managers, the premium amount is determined according to the goals they have accomplished, and payments are made accordingly. Within this framework, in March 2013, a gross total of TL 4,117,000 incentive payment has been paid.

### Training

At T-Bank, training programs are offered in order to develop the personnel skills and the common culture.

With the aim of ensuring its employees quick adjustments and developing their capabilities further, T-Bank offers a wide range of training and development activities. These programs and activities encompass: Initiation programs, that allow quick adaptation for new employees; Trainee Programs that provide basic banking information for employees with no banking experience; Technical-Personal Development Trainings for experienced bankers; Manager Development Trainings and coaching applications for employees at the management level; and e-trainings programs that are provided over the e-learning platform. The Development Seminars, which are carried out by experts in different fields, are also performed within the scope of training-development activities.

T-Bank continued the "Personal Leadership and Development" project it initiated in 2012 in order to support the current and future development of experienced directors. This endeavor, which is also defined as the Sage Project is conducted at T-Bank or other banks and is attended by managers that have a management experience of five years or above.

In 2013, the Second Sage Project for employees, with a management experience of three years and above, was initiated. Within the scope of the project, an evaluation project directly concerning the work performance was conducted by an expert consultancy firm. The Evaluation Center evaluates the work qualifications and the behavioral characteristics of the personnel participating in the project and provides feedback. The managers participating in the Sage Project during this 18-month long development journey, attend trainings consisting of three modules titled "Managing Yourself," "Managing Relationships-The Team," and "Managing Opportunities." These trainings are supported with presentations and different development tools as well as forum messages.

The managers who have completed the trainings of the First Sage group in 2013 and are participating in the "Graduation Project," work on developing projects that they believe will benefit T-Bank. The graduates, who complete their projects shall have certificates approved by "The Drucker Institute" and "Center For Great Management." Each employee has a private account on the T-Bank e-learning platform and can access the e-trainings defined to them over this platform from the workplace or their homes 24/7.

In 2013, the Head Office and Istanbul branch employees participated in several of the Banks Association of Turkey trainings. In addition, many employees at the Head Office and T-Bank branches participated in the training and certificate programs that were conducted by private training firms.

### Corporate Social Responsibility

In 2013, the Bank organized an aid campaign for Yedikule Animal Shelter. During the campaign, which was carried out under the slogan "They Need Us," the collected aid materials were delivered to Yedikule Animal Shelter by the Bank's employees.

# In-house Communication and T-Club

### In-house Communication

The activities that T-Bank regularly carries out to increase in-house communication and employee motivation are as follows:

- The Bank's intranet portal "Birlik-T" was organized as an active information sharing portal of a variety of information such as promotions and assignments of the employees, T-Club activities, and news published in the press;
- Special discounts offered at restaurants, hair dressers, and health centers for T-Bank employees are announced through the Birlik-T Portal;
- The Bank felicitates its employees on their special occasions through messages sent out at birthdays, employment anniversaries, and birth announcements;
- T-Bank continued its tradition of sending gifts in the name of the baby to employees, who have recently given birth;
- New joiners at T-Bank are introduced through e-mails with photos attached.

### T-Club

Working at T-Bank allows professionals to enjoy a privileged work life by offering social facilities that extend by beyond their career.

T-Bank carried out a series of activities that add value to the personal lives of the employees and their families through T-Club, which all employees are members of. Within the scope of these activities, in 2013, a painting competition for the children of the Bank employees was organized under the title, "The Holiday of My Dreams." The winning participants received prizes and their works were exhibited at Head Office. In addition, the prize-winning paintings also appeared in the Bank's 2014 desk calendar.

Encouraged by T-Bank, a number of employees participated in Istanbul Marathon in 2013.

Other social activities that took place within the context of the T-Club in 2013 are as follows:

- The traditional Children's' Festival on April 23, 2013
- Bi-annual bowling tournament
- Backgammon tournament

# SECTION III

## T-Bank Management and Corporate Governance Implementations

T-Bank's corporate governance is founded on a transparent approach to business, clear and comprehensive disclosure of information, and solid stakeholder relations.

# Board of Directors

## T-Bank's Audit Committee, Internal Audit, and the Risk Management Department are the pillars of the Bank's corporate structure.

**Nemeh Sabbagh**
**Chairman**
Nemeh Sabbagh, assumed the position of CEO of Arab Bank in January 2010. He has an MBA in Finance from the University of Chicago, an MA in International Economics from the Johns Hopkins University. He completed his undergraduate studies (BA) in Economics and French at Austin College in Texas and at L' Institut d'Etudes Politiques in Paris. He is also an alumnus of Stanford University where he completed the Senior Executive Program at the Graduate School of Business. He began his banking career at the World Bank in 1973 and has served at various banks, including the National Bank of Kuwait for 19 years. He served as CEO of the Arab National Bank for seven and a half years and as Executive General Manager of BankMed for four years.

**Mohamed Ali Beyhum**
**Vice Chairman**
Mohamed Ali Beyhum is a graduate of the faculty of Mechanical Engineering at the American University of Beirut, Lebanon. He also holds an MS in Industrial Management from Columbia University. At the start of his career, he worked at Irving Trust Company and the Bank of New York in the US gaining ample experience in the sector. He then relocated to Lebanon where he served as Vice President and Senior Representative at the Beirut office of the Bank of New York. He joined BankMed as an Advisor to the Executive Office before assuming his current position as Executive General Manager of the Bank.

**Amin Rasheed Sa'id Husseini**
**Board Member**
Amin Husseini is a graduate of Physics at Yarmouk University, Jordan. He holds an MBA from Fort Hays State University, USA. He started his career at Arab Bank Plc and served as Executive Vice President and Head of Financial Institutions and Transactional Services. In 2009, he was appointed as Country Manager of Bahrain at Arab Bank Plc.

**Dinçer Alpman**
**Board Member and CEO**
Dinçer Alpman is a graduate of Management Engineering at Istanbul Technical University. He started his banking career at Pamukbank in 1988 and went on to work at Marmara Bank, Tekfen İnşaat and Alternatif Bank. Before joining T-Bank, he spent 10 years at DenizBank as Executive Vice President in charge of Retail Banking.

**Henri Jacquand**
**Board Member**
Henri Jacquand is a graduate of Ecole des Hautes Etudes Commerciales and holds a MBA from the University of Chicago Graduate School of Business. During his managerial career, he served as Vice President at Citibank, New York, Executive Vice President at CIC Group and Executive Vice President at Rabobank.

**Riad Burhan Taher Kamal**
**Board Member**
Riad Kamal is the Founder and former CEO of Arabtec Holding, one of the largest general contractors in the Middle East. He founded Arabtec in 1974 and led its growth and development for almost 40 years. Arabtec became a listed company in 2004. Mr. Kamal is a graduate of the Imperial College at London University and holds a B.Sc in Civil Engineering and a Master's degree in Structural Engineering. Mr. Kamal serves on the boards of Arab National Bank (KSA), Arabia Insurance (Lebanon), Oman Arab Bank (Oman), Gulf Capital (Abu Dhabi), Rotana Hotels (Abu Dhabi) and is a member of the Board Of Trustees of The American University of Beirut.

**Faten Matar**
**Board Member**
Faten Matar is a Business Administration graduate from the American University of Beirut. He started his banking career at Citibank in 1978 where he served there for four years before joining Universal Bank. In 1986, he returned to Citibank and worked for 10 years in managerial positions. Between 1998 and 2000, he worked as Vice General Manager of Byblos Bank. In the latter stage of his career, he served as General Manager of Banque de la Mediterranée sal and Allied Bank sal. He is currently Advisor to the Executive General Manager of BankMed.

**Nadya Nabil Tawfik Talhouni**
**Board Member**
Nadya N. Talhouni is a graduate of Bryn Mawr College in the USA and holds a degree in Economics with a minor in Political Science. She worked for Citibank NA within the Financial Institutions Group and also held a position of Securities Business Manager before joining Arab Bank in July 2002. She currently serves as Senior Vice President and the Global Head of Cash Management and Trade Finance at Arab Bank.

**Mustafa Selçuk Tamer**
**Board Member**
Selçuk Tamer is a graduate from the University of Ankara with a degree in Business Administration from the Faculty of Political Sciences. He started his banking career in 1976 and worked at a number of banks. Prior to his current position as a Board member at T-Bank, he served as Assistant General Manager and finally Vice Chairman at Yapı ve Kredi Bankası A.Ş., for 18 years.

**M. Behçet Perim**
**Board Member**
Behçet Perim is a graduate of Boğaziçi University with a degree in Electrical and Electronic Engineering in addition to an MBA from the same institution. He started his banking career in 1191 at Interbank where he served for three years. His career continued at Bank Ekspres for another three years before moving to Denizbank for 10 years. Mr. Perim served as Executive Vice President in charge of Risk Management and Internal Control at DenizBank, before joining T-Bank as a Board member.

# Executive Management

**Doruk Parman**
**Executive Vice President-Marketing and Sales**
Doruk Parman is a graduate of Middle East Technical University with a degree in Mechanical Engineering. He received his MBA from Bilkent University followed by a Doctorate in Banking from Marmara University. Mr. Parman started his business career at Interbank and later served at DenizBank for 10 years in a number of positions including Senior Vice President of Retail Banking Division, before his current position as Executive Vice President at T-Bank.

**Hakkı Yıldırmaz**
**Executive Vice President-Human Resources**
Hakkı Yıldırmaz is a graduate of Middle East Technical University and holds a degree in Industrial Engineering. He earned his MBA and PhD in Management and Organization at Yeditepe University. His banking career began in 1993 at Türkiye İş Bankası; he later worked with İktisat Bankası, Alternatifbank and Denizbank. Prior to his current position as Executive Vice President at T-Bank, he served as Alternative Distribution Channels Senior Vice President at Denizbank.

**İlhan Zeki Köroğlu**
**Executive Vice President-Operation and Information Technologies**
İlhan Zeki Köroğlu is a graduate of Middle East Technical University with a degree in Public Administration. He started his banking career at Pamukbank and assumed senior positions at Körfezbank and Garanti Investment. Prior to becoming Executive Vice President-Operation and Information Technology at T-Bank, he served as Executive Vice President at Alternatifbank.

**Mehmet Özgüner**
**Executive Vice President-Financial Affairs**
Mehmet Özgüner is a graduate from the department of Mining Engineering at Middle East Technical University. He started his banking career in 1994 at the Banking School of Ziraat Bankası and later served as an Internal Auditor on the Board of Internal Auditors at Osmanlı Bankası for six years. In 2002, he joined T-Bank's Board of Internal Auditors; the following year, he was appointed Chairman of the Board. Since 2004, he has been serving as Executive Vice President-Financial Affairs at the Bank.

**Münevver Eröz**
**Executive Vice President-Treasury and Financial Institutions**
Münevver Eröz is a graduate from the Business Administration Department at Boğaziçi University and holds an MBA from Koç University. She joined the banking industry in 1987 at the Saudi American Bank, serving in several managerial positions for over a ten-year period. She joined the Bank in 1997 and has been Executive Vice President since 2000.

**Yurdakul Özdoğan**
**Executive Vice President-Credit Allocation and Follow-up**
Yurdakul Özdoğan holds a degree in Economics from the Faculty of Political Sciences at Ankara University. He started his banking career at Pamukbank, before serving at Toprakbank, İktisatbank and Finansbank. Prior to becoming T-Bank's Executive Vice President-Credit Allocation and Follow-up; his last position was Senior Vice President of Credit at Oyakbank.

**Ali Has**
**Head of Internal Audit**
Ali Has is a graduate of the Faculty of Management at Istanbul University and started his business career at the Foreign Transactions Department of Yapı Kredi Bankası in 1994. Working at İş Factoring Finansal Hizmetler AŞ. and TEB A.Ş. before his current position as Department Head of T-Bank Internal Audit Department Has is also a Certified Internal Auditor (CIA).

## Statutory Auditors

**Osman Baydoğan**
**Statutory Auditor**
Osman Baydoğan is a graduate of Ege University's Business Administration Department. He worked in Financial and Administrative Affairs Departments of various leading construction companies between 1978 and 1985. His next 13 years were spent at Al Baraka Türk Katılım Bankası where his last position was Risk Follow-up Manager. From 1998 to 2004, Mr. Baydoğan served as Financial Affairs Coordinator at Eksim Şirketler Grubu and is currently Executive Director at Inter Trade.

**Özgür Çelik**
**Statutory Auditor**
Özgür Çelik graduated from Istanbul University and holds a degree in Business Administration. He started his career in 1997 as a research intern and spent three years at KPMG, Istanbul as a Senior Accountant. He later worked as an Assistant Finance and Accounting Manager of an affiliate company of NEXT Plc, before joining Oger Telecom in 2007. He currently serves as Financial Controller at Oger Telekomünikasyon A.Ş. and Oger Telecom Yönetim Hizmetleri Ltd. Şti., a subsidiary of Oger Telecom in Turkey.

# Credit Committee and Other Committees

**Credit Committee**
**Dinçer Alpman,** CEO and Board Member
**Henri Jacquand,** Board Member
**M. Selçuk Tamer,** Board Member

**Executive Committee**
**Dinçer Alpman,** CEO and Board Member
**M. Selçuk Tamer,** Board Member
**M. Behçet Perim,** Board Member
**Doruk Parman,** Executive Vice President
**Hakkı Yıldırmaz,** Executive Vice President
**İlhan Zeki Köroğlu,** Executive Vice President
**Mehmet Özgüner,** Executive Vice President
**Münevver Eröz,** Executive Vice President
**Yurdakul Özdoğan,** Executive Vice President
**Ali Has,** Head of the Internal Audit

**Assets/Liabilities Committee (ALCO)**
**Dinçer Alpman,** CEO
**M. Behçet Perim,** Audit Committee Board Member in Charge of the Risk Management Group, Internal Audit, and Internal Control
**Doruk Parman,** Executive Vice President
**İlhan Zeki Köroğlu,** Executive Vice President
**Mehmet Özgüner,** Executive Vice President
**Münevver Eröz,** Executive Vice President
**Yurdakul Özdoğan,** Executive Vice President
**Cengizhan Cengiz,** SME Banking Manager
**Elif Ertemel,** Retail Banking Director
**Serhan Yazıcı,** Corporate Banking Director
**Alper Üstündağ,** Treasury Manager
**Elida Stupljanin**, Financial Institutions Manager
**Gülgün F. Öztaş,** Risk Management Group Head
**İsmail Dokur,** Budget Planning and Management Reporting Manager
**Veyis Fertekligil,** Chief Economist, Economic Research

**Audit Committee**
**Mohamed Ali Beyhum,** Vice Chairman of the Board of Directors
**Amin Rasheed Sa'id Husseini,** Board Member
**M. Behçet Perim**, Board Member

**Corporate Governance Committee**
**Mohamed Ali Beyhum,** Vice Chairman of the Board of Directors
**Amin Rasheed Sa'id Husseini,** Board Member
**M. Behçet Perim,** Board Member

**Compensation Committee**
**Mohamed Ali Beyhum,** Vice Chairman of the Board of Directors
**Faten Matar,** Board Member
**M. Selçuk Tamer,** Board Member

## Risk Management Committees

**Executive Risk Committee**
**Dinçer Alpman,** CEO
**M. Behçet Perim,** Audit Committee Board Member in Charge of the Risk Management Group, Internal Audit, and Internal Control
**Doruk Parman,** Executive Vice President-Member
**Hakkı Yıldırmaz,** Executive Vice President-Member
**İlhan Zeki Köroğlu,** Executive Vice President-Member
**Mehmet Özgüner,** Executive Vice President-Member
**Münevver Eröz,** Executive Vice President-Member
**Yurdakul Özdoğan,** Executive Vice President-Member
**Gülgün F. Öztaş,** Risk Management Group Head-Member

**Operational Risk Committee**
**Dinçer Alpman,** CEO
**M. Behçet Perim,** Audit Committee Board Member in Charge of the Risk Management Group, Internal Audit, and Internal Control
**Doruk Parman,** Executive Vice President-Member
**İlhan Zeki Köroğlu,** Executive Vice President-Member
**Ali Has,** Head of the Internal Audit -Member
**Gülgün F. Öztaş,** Risk Management Group Head-Member
**Şehsuvar Erol,** Internal Control Center Department Head-Member

**Information Technologies Risk Committee**
**Dinçer Alpman,** CEO
**M. Behçet Perim,** Board Member
**İlhan Zeki Köroğlu,** Executive Vice President-Member
**Ali Has,** President of the Internal Audit -Member
**Gülgün F. Öztaş,** Risk Management Group Head- Member, Risk Management Group Head-Member
**Şehsuvar Erol,** Internal Control Center Department Head-Member

# Risk Management, Internal Control and Internal Audit Management

**M. Behçet Perim**
**Audit Committee Board Member in Charge of the Risk Management Group, Internal Audit, and Internal Control**
Behçet Perim is a graduate of Boğaziçi University with a degree in Electrical and Electronic Engineering in addition to an MBA from the same institution. He started his banking career in 1991 at Interbank where he served for three years. His career continued at Bank Ekspres for another three years before moving to Denizbank for 10 years. Mr. Perim served as Executive Vice President in charge of Risk Management and Internal Control at DenizBank, before joining T-Bank as a Board member.

**Ali Has**
**Head of Internal Audit**
Ali Has is a graduate of the Faculty of Management at Istanbul University and started his business career at the Foreign Transactions Department of Yapı Kredi Bankası in 1994. Working at İş Factoring Finansal Hizmetler AŞ. and TEB A.Ş. before his current position as Department Head of T-Bank Inspection Committee. Has is also a Certified Internal Auditor (CIA).

**Gülgün Figen Öztaş**
**Group Head, Risk Management Group**
Gülgün Figen Öztaş is a graduate of Business Administration at Marmara University, Faculty of Economics. She also holds a Master of Science in Financial Economics Quantitative Finance from Bilgi University. She began her career in the banking sector at Türkiye İş Bankası in 1994 as a Financial Analyst. Starting from 1995, she served as a Senior Analyst at TSKB and later joined the Risk Management Group of T-Bank in 2005. Ms. Öztaþ is a Certified Financial Risk Manager.

**Şehsuvar Erol**
**Department Head, Internal Control Resigned on October 31 2014**
Şehsuvar Erol is a graduate of Economics at Istanbul University. He started his banking career at Koçbank in 1992 as an Assistant Auditor and has worked as a Senior Financial Analyst at TSKB. After serving at DenizBank for nine years, he joined the Internal Control Center of T-Bank in 2007.

## Attendance at the Board of Directors, Audit Committee and Other Committee Meetings

All Board and Committee members attended all the meetings unless a valid excuse was presented.

# Summary Report of the Board of Directors to the General Assembly

The year 2013 witnessed some positive developments with the gradual recovery of the global economy. This improvement triggered renewed confidence in the markets.

In 2013, Turkey continued to progress, attaining a growth rate of 4% despite the developments in the MENA region, which had negative consequences on the national economy. In parallel, the relative improvement in Europe has positively affected the trade flow between Turkey and the EU region, stimulating growth. Through its proactive approach, the Central Bank of Turkey also played a pivotal role to ensure financial stability in the country.

In light of these developments, the Turkish banking industry witnessed a continued growth and achieved positive results in 2013, with assets showing an increase of 26.4% compared to the previous year. Profitability growth was recorded at 5.1%, and capital adequacy ratio reached 15.3%. Moreover, loans accounted for 60.5% of total assets.

Having increased its capital to TL 500 million in 2013, T-Bank continued to capitalize on its shareholders support. The Bank increased its net profit by 13% and credit portfolio by 32% when compared to the previous year.

In its endeavor to continue offering unique financing alternatives to its growing SME segment, T-Bank launched several new programs including the co-financing program with KOSGEN, the “Small & Medium Enterprises Development Organization” which helped the Bank in expanding its portfolio as well as forging new relationships. During the year, SME credits achieved a 49% growth, which is a clear testament of T-Bank’s keen interest to support this segment.

During 2013, the Bank finalized the implementation of its new core banking IT system, which integrates a CRM and Treasury platforms, the first of its kind in Turkey. The new software platform focuses on increasing the efficiency and speed of the Bank’s business processes.

We would like to thank our customers for their continued confidence in us and our Bank. T-Bank is well positioned to grow in 2014, backed by its shareholders, management and employees.

**Nemeh Sabbagh**
Chairman

**Dinçer Alpman**
CEO

# Related Parties Transactions

**T-Bank Group Risks by Sector (thousand TL)**

| | Cash Loans | Risk Share (%) | Non-cash Loans | Risk Share (%) | Total Loans | Risk Share (%) |
|---|---|---|---|---|---|---|
| Financial Institutions | 73 | 0,00% | 3.211 | 0,16% | 3.284 | 0,07% |
| Communication & Telecommunication | - | 0,00% | 4.610 | 0,24% | 4.610 | 0,09% |
| IT | - | 0,00% | 6.495 | 0,33% | 6.495 | 0,13% |
| Other | 23 | 0,00% | 46 | 0,00% | 69 | 0,00% |
| **Total** | **96** | **0,00%** | **14.362** | **0,74%** | **14.458** | **0,29%** |

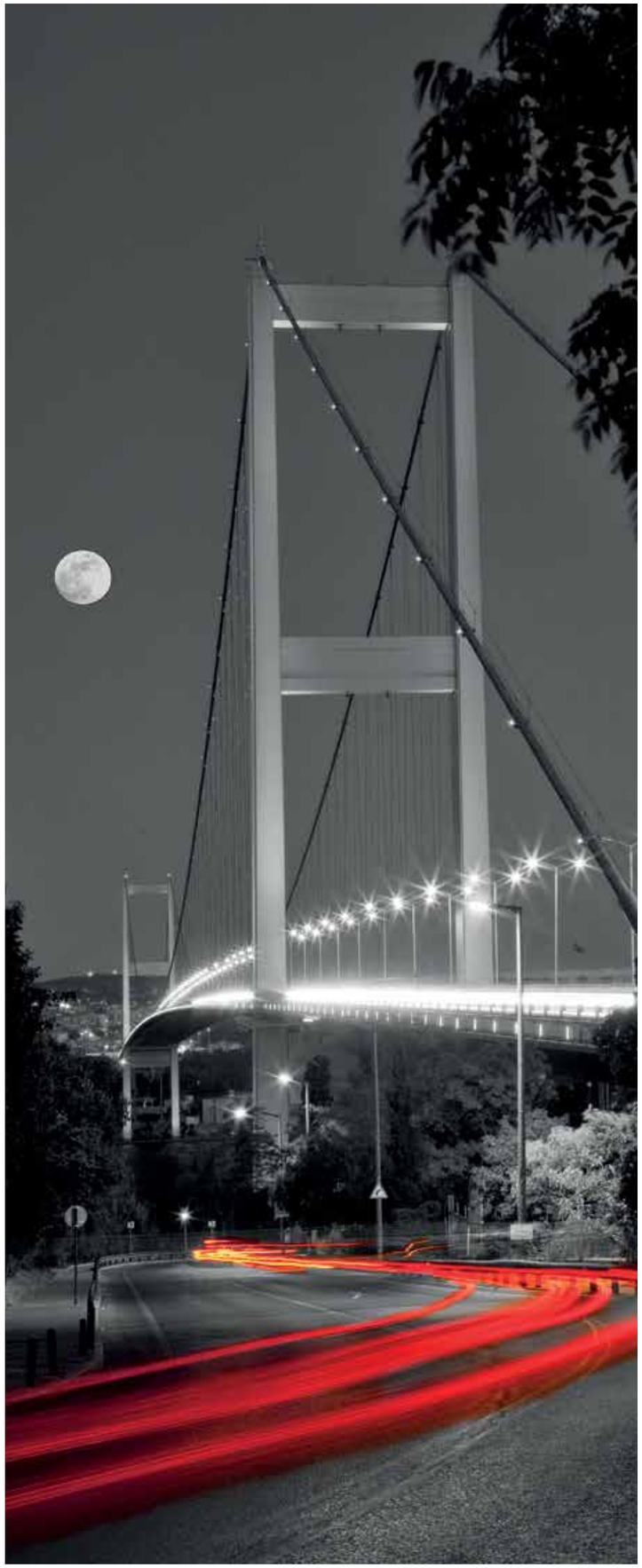
# Persons and Companies That Provide Support Services

As stipulated by "The Regulations on Banks Receiving Support Services and the Authorization of the Support Service Institutions," T-Bank receives support services for its basic banking activities. In accordance with its business needs, T-Bank purchased software applications from various domestic and foreign companies. The Bank receives support from Securverdi for cash transfers and Provus Bilişim A.Ş. for card operations.

# SECTION IV

## Financial Information and Risk Management

T-Bank considers risk management as a significant component its banking process. This constantly ensures risk management awareness at all levels of the Bank's organizational structure.



# Risk Management Policies

T-Bank Risk Management Group was established in 2001 as an independent unit reporting to the Audit Committee Member responsible for Internal Audit, Internal Control and Risk Management. It conducts its activities of reporting to the Audit Committee within the frame of the provisions of "Regulation on the Internal Systems of Banks" by Banking Regulation and Supervision Agency (BDDK) published on the Official Gazette 28337 dated 28.06.2012.

As a basic principle, Risk Management measures credit, market, interest, concentration and liquidity risks and determines limits and control processes. T-Bank considers risk management as a significant component of banking process. Therefore, it is of vital importance to ensure risk management awareness at all levels of the Bank's organizational structure.

Risk Management Group presents regular daily, weekly, monthly and quarterly reports which keep track of all risks, concentrations and legal limits that the Bank is subject to and Bank's own internal limits to the Top Level Management and Audit Committee. These reports include Value At Risk (VAR) analyses, market risk limits, stress tests and scenario analyses, liquidity and interest risk reports and analyses of economic capital and capital adequacy. These reports, which are also submitted to the Weekly Assets and Liabilities Management Committee, include daily VAR analyses, weekly interest risks, economic capital calculations and market risk limits. In addition, volatility and closing value of many market risk instruments are closely monitored and reported daily.

Stress tests and economic capital scenario analyses, capital adequacy, liquidity and profitability scenarios, T-Bank credit portfolio default possibility as compared to similar banks and credit risk report regarding the developments in the credit portfolio of the Bank are submitted to the Audit Committee on a quarterly basis. Top Level Management monitors the performance and limits of the Bank by using these detailed reports.

T-Bank's assets and liabilities management policy focuses on the procurement of funds sufficient to meet the credit demands of customers and legal requirements of the Bank. Composition of assets and liabilities components, and aspects related to financial rates and maturities are discussed and agreed upon by the Assets and Liabilities Management Committee on a weekly basis.
A quarterly presentation including main risks of the Bank is submitted to the Audit Committee and the Board of Directors. Economic capital calculations covering credit, market and operational risks are also included in this presentation. Additionally, Audit Committee and Top Level Management are informed about the risk limit excess. Relevant limits are periodically reviewed by the Risk Management and Top Level Management, and are updated when deemed necessary.

The Board of Directors has limited the economic capital with 50% of equities, the market risk VAR value with 2.5% of equities and the securities portfolio with 20% of the Bank's assets. Volume and portfolio limits have also been determined for the securities portfolio. These limits are also monitored and reported. Additionally, Audit Committee and Top Level Management are informed about the risk limit excess. New risk limits prepared by Risk Management and Top Level Management in December 2013 have been approved by the Board of Directors. Risk Management Group makes Basel II capital adequacy calculations systematically for Credit Risk, Market Risk and Operational Risk in accordance with "Regulation on Measurement and Assessment of Capital Adequacies of Banks" published on the Official Gazette 28337 dated June 28, 2012.

### Credit Risk

Credit Risk is the risk of inability of counter parties to meet their liabilities from contracts that the Bank is a party to. Credit risk management is of vital importance in terms of T-Bank's sustainable development policy. The Board of Directors leads the way for determining the credit limits used by various sectors, companies and groups by delegating credit approval responsibilites. Many criteria such as financial strength, commercial capacity, sectors, geographic regions, capital structure and morality of customers are taken into consideration when credit limits are determined. Assessment of financial structure of a customer is performed according to the financial tables and other information received pursuant to the relevant regulation. Previously designated credit limits are revised regularly and continuously as a result of the assessment of general economic conditions and monitoring changes occurring in the financial data and activities of customers.

Different types and amounts of assurances determined on a customer-based approach are provided for credit limits. Limits determined at product and customer based levels are predicated upon for credit facility transactions, and risk, limit and assurance information are continuously inspected. Credit Monitoring Department is primarily responsible for monitoring credit risks and detecting early signals related to a possible default. Capital requirements due to the Bank's credit-related practices are calculated in accordance with the Law of Banking and the "Regulation on Measurement and Assessment of Capital Adequacies of Banks" published on the Official Gazette 28337 dated June 28, 2012.

A committee responsible for creating a new internal rating system has been established with the aim of bringing T-Bank's rating system in conformity with Basel II standards. Additionally, a contract has been signed with Finar (Dun & Bradstreet's representative in Turkey) which provides consultation services in this field, and within the frame of this contract, an "expert opinion based" rating system has been prepared and put into practice as of January 2009 as a result of meetings held with the participation of Bank's directors specialized in their fields. Validation of Finar rating system has been completed in June 2011. Suggestions prepared by the company have been transferred to the system as of October 2011 following the approval by the top level management and continued to be applied during 2012.

Risk Management Group follows the corresponding bank credit risk limits specified by the Board of Directors on a daily basis, and sends information letters to the Top Level Management and relevant departments in case of excess. Repurchase agreements, derivative transactions and money market transactions conducted by T-Bank Treasury Department are also closely monitored due to the counter party's risk of going into default.

### Market Risk

Market risk defines value fluctuations arising at the Bank's positions as a result of price changes. This concept is approached in two categories by T-Bank, namely purchase and sale risk, and assets and liabilities risk. Risk Management Group has been making VAR calculations on a daily/weekly basis with a one-day lock-up period and 99% reliability level as of November 2004. Accordingly, VAR results calculated using parametric, historical simulation and Monte Carlo VAR calculation methods are used with the aim of calculating capital requirement for purchase and sale risk. Additionally, VARs are calculated by using market risk systems and advanced simulations recently obtained as of the end of 2010 and through non-linear movements that may arise in the market, and more detailed scenario analyses are performed and monitored on a daily basis. Efficiency of VAR method is controlled by "back-testing" method and the number of days when actual losses are higher than the calculated VAR.

The Bank has specified the market risk management activities within the scope of "Regulation on Measurement and Assessment of Capital Adequacies of Banks" and "Regulation on Measurement of Equities of Banks" published on the Official Gazette 28377 dated June 28, 2012 with the aim of ensuring protection against market risk within the purposes of financial risk management and has taken the necessary precautions.

### Interest Rate Risk

T-Bank maintains its policy of keeping its risk level within the prudent limits it has specified and within values that accord with its internal policies. Risk Management Group regularly prepares weekly interest rate GAP analyses, Duration GAP analyses and sensitivity analyses which include the whole balance sheets, for monitoring the interest rate risk in the most appropriate way.

### Interest Rate Risk Related To Banking Book

Interest rate risks arising from all interest-sensitive in-balance sheet and off-balance sheet items, and interest rate risks arising from banking calculations are calculated on a monthly basis except for the items other than the subordinated debts taken into consideration for equity calculations pursuant to the "Regulation on Equities of Banks" published on the Official Gazette 26333 dated 1/11/2006 along with the items monitored within purchase and sale calculations. Interest rate risk arising from the banking book is monitored closely and managed by T-Bank.

### Liquidity risk

Liquidity risk is the risk arising due to not possessing effects or cash inflow at the level and with the characteristics that can meet cash outflows completely and on time due to the instability in cash flows. Liquidity risk can also arise due to the inability of closing positions swiftly at convenient prices and sufficient amounts and leaving positions as a result of not being able to enter the market as required, obstacles and separations in markets. T-Bank reserves a high amount of liquidity in parallel with its prudent banking approach. As per the Bank's general policies, the conformity of maturity structures of assets and liabilities with interest rates is always provided within the scope of Assets and Liabilities Management strategies, and the difference arising from the revenue and costs of TRY and foreign currency assets and liabilities in the balance sheets is always managed

appropriately. Rates of Meeting Liquidity within the scope of Basel III have been calculated on Foreign Currency and Total basis in accordance with the "Regulation Draft on Calculation of Rates for Meeting Liquidity by Banks" issued by Banking Regulation and Supervision Agency in 2013 and been reported to Banking Regulation and Supervision Agency. Additionally, "Liquidity Risk Analysis" form was issued weekly in 2013 and started to be reported to Banking Regulation and Supervision Agency.

In parallel with this strategy, various crisis scenarios created by Risk Management Group are submitted to the Top Level Management and Audit Committee. When funding and liquidity resources are taken into consideration, the large part of the Bank's liquidity requirements is met by deposit, and in addition to this resource, other resources can also be provided through the use of syndication and pre-financing products.

### Operational Risk

Operational Risk is the risk of loss that may arise due to inappropriate or faulty internal processes, personnel or system mistakes or incidents originating from outside. The Bank's units manage this risk through clearly-defined policies, procedures and internal controls.

Operational processes are planned by Central Operation Department located inside the Head Quarters by T-Bank. Operation directors at branch offices are responsible for performing all operations and are affiliated with the Central Operation Department independently of the branch managers.

Risk Management Group calculates operational risk according to Basel II basic indicator approach. The ultimate goal of the Bank is to detect quantifiable and non-quantifiable risks that are subject to operational risk on the basis of processes and transactions by using Advanced Measurement Methods, and ensure that the Bank's top level management is aware of operational risks, controls and residual risks through reporting. An application is used with the aim of managing operational risks centrally. System adaptation activities of a new application where functions are superior still continue. The new application is planned to be used in the first half of 2014. Through this application, it will be possible to centralize and monitor all Operational and IT risks of the Bank. Risk Management Group has ensured through the independent system they use that enforcement-free, daily risk management processes and integrated operational risks and losses that are exposed are periodically recorded.

Operational risks of support services companies are assessed within the scope of support services regulation. Risk analyses are conducted by the Risk Management Group in addition to the relevant departments of support providers where support service. An annual risk management program has been established and submitted to the approval of the Board of Directors regarding the support services.

Risks concerning IT processes within the frame of IT Risk Management are evaluated by the Risk Management Group within the scope of operational risk system. Improvement activities concerning critical IT processes are coordinated. Improvement activities concerning eliminating the findings of the information systems detected by independent audit are coordinated by the relevant departments. Actions to be taken during the improvement process are evaluated and resolved by IT Risk Committee and IT Risk Sub-Committee.

Information Technologies Risk Management Sub-Committee meeting under the chairmanship of Risk Management Group perform necessary updates every year and conduct impact and likelihood calculations of IT risks. The relevant committee submits the risk assessment results above the critical threshold to the Information Technologies Risk Committee which will make reduction, acceptance, avoidance, investment and transfer decisions of risks, and ensures that actions are taken and the taken actions are monitored. Business continuity and corresponding IT continuity plan within the frame of IT Risk Management have been updated in coordination with relevant departments in 2013. In consequence of the meetings held with all departments of the Bank within the scope of business continuity plan, critical business processes have been assessed, and the Bank's Emergency Action, Crisis Management, Business Recovery Plan and teams have been updated. Business continuity of critical processes and corresponding IT continuity plan have been tested in 2013.

### Internal Capital Management

Internal Capital Adequacy Assessment Process (ICAAP) is a process that allows the determination of a capital size which will be needed by the Bank within a certain period of time by evaluating and measuring all exposed risks in the most efficient possible way.

In this regard, the 1st Structural Block only includes Credit Risk, Market Risk and Operational Risk, whereas the 2nd Structural Block (ICAAP) includes all risks that are not included by the 1st block and that the Bank may be exposed to. It is exposed to credit risk, operational risk, market risk, liquidity risk, concentration risk and IT risk within the scope of its activities.

The Bank has specified a stress test oriented management by estimating maximum loss amount that may arise within Credit, Operational, Market risks and other risks and taking market changes into account within the scope of internal capital management. Stress test and scenario analysis results are reported by Risk Management Group on daily, weekly and quarterly basis. Capital adequacy rate is calculated by Risk Management Group on a monthly basis, information is provided regarding capital requirement in accordance with the strategic plans when demanded by the Top Level Management, and studies are conducted concerning internal capital management. Design and implementation of the capital requirement internal assessment process are performed by the Risk Management Group. Risk Management Group informs the Top Level Management on these aspects directly or through the Top Level Risk Committee.

### Internal Control Group:

Internal Control Center continues its activities to ensure that activities of T-Bank are conducted in accordance with the legal regulations in force and the legislation of the Bank, integrity and reliability of accounting and reporting systems are maintained, and internal control systems are designed regarding activities and processes.

It is aimed to contribute to the implementation of purposes of the Bank concerning:

- Reliability and integrity of the information on financial and administrative aspects
- Efficiency of activities
- Accurate and efficient use of resources
- Compliance with laws and regulations

Through the activities conducted by the Internal Control Unit completed its control activities until 01.04.2013 through Branches Internal Control Unit, Head Quarters Internal Control Unit and Compliance Unit; and having been separated from the Compliance Unit Internal Control Directorate as of 01.04.2013, started to perform its activities as a separate department. Internal control function is conducted in accordance with the purposes of the Bank and in a fast, up-to-date and action-oriented manner in terms of period, scope and methodology. Technological resources are intensively used during these activities. Computer-aided audit techniques used by the Internal Control Group, particularly ACL (Audit Command Language), ensure that transactions performed by the Bank are continuously kept under control.

### Internal Control Department:

Business manners of business lines, consistency and reliability of implementation of information technologies, and the accounting processes of the Bank have been inspected during the central controls conducted by the Head Quarters Internal Control Unit in 2013, fields that may cause operational risk have been detected and necessary control activities have been performed.

### Branches Control Unit:

All branches have been subject to on-site controls within the frame of the audit plan determined for 2013 by Branches Internal Control Unit. Controls have been performed in the above-mentioned year under the titles of "Credits", "Physical Count, General Appearance and Safety", "Current Accounts, Pay-Desk and Cheque Transactions", "Know-Your-Customer and Customer Risk Policy".

Findings identified within the scope of assessment and control activities conducted by Internal Control Group have been reported to the Top Level Management, and activity reports prepared on a quarterly basis have been submitted to the Audit Committee.

### Compliance Group:

Having been separated from the Internal Control Department on 01.04.2013, it has conducted its activities as a separate stand-alone department.

Compliance of all activities, new transactions and products performed or planned to be performed by the Compliance Department of the Bank in accordance with the Regulation on the Internal Systems of Banks published by the Banking Regulation and Supervision Agency with laws, legislation, master agreement, internal regulations, Banking ethical principles and other Banking policies has been inspected, implementation of activities regarding the management of the Bank's reputation risk has been ensured, and in-Bank and non-Bank activities concerning combattting with crime revenues and avoidance of financing terrorism have been coordinated.

Aspects and main fields involving potential risk factors are reviewed and assessed by the Operational Risk Committee under the chairmanship of the General Manager. Every problem approached with close attention is taken under review until it reaches the solution phase.

# Audit Committee's Report Concerning the Internal Systems

T-Bank's Audit Committee is responsible for ensuring the efficiency and adequacy of the Bank's internal systems (Internal Audit, Internal Control, and Compliance, and Risk Management Systems), the operation of those systems, the operation of the Bank's accounting and reporting systems, and the integrity of the information thus produced. At T-Bank, internal systems are overseen by the Bank's Internal Audit Group, the Internal Control and Compliance Units, and the Risk Management Group.

Along with the internal systems, the Operational Risk Committee has been established to define, evaluate, and manage operational risks more efficiently. The IT Risk Committee, the Outsourced Services Committee, the IT Risk Management Subcommittee, and the Basel II CRD 48 Compliance Committee all have conducted their operations successfully during 2013. These committees bring together the Bank's senior managers, including the General Manager, as well as members of the Internal Systems Group. The action plans from these committees are then applied so as to evaluate and minimize the operational risks to which T-Bank is exposed.

The purpose of the Internal Audit Group, which works in connection with the Internal Systems Group, is to provide Senior Management with reasonable assurance so that it can conduct the Bank's activities in accordance with all appropriate laws, other regulations, and in accordance with the Bank's internal strategies, policies, principles, and objectives. Its ultimate goal is to deliver added value to T-Bank's business processes, ensuring that its activities will improve in accordance with its objectives.

In this respect, no effort is spared to ensure the adequacy and efficiency of the tools to enhance the operation of T-Bank's internal controls and monitor the risk structures within the Bank's organization. The recommendations of the internal auditors and the results are shared with T-Bank's Senior Management, as well as with the Audit Committee. These recommendations are presented as a guide that addresses each related decision process. Based on the results of the audits, the recommended actions are meticulously implemented and systematically monitored.

The primary criterion directing the Internal Audit Group's efforts is that T-Bank's audit activities must remain in compliance with international professional audit standards. Implementing a risk-based approach approved by the Bank's Board of Directors, audits included in the 2013 audit plan have, to a large extent, been finalized. Furthermore, in each department in which an audit is finalized, care is taken to ensure that the audit performance is properly assessed through analytic audit grades. Any department whose grades are below average is then subjected to diligent review during the next annual audit plan's preliminary stages. The IT resources utilized in the Internal Audit Group's audits at a maximum level ensures that efficiency and effectiveness have significantly increased.

T-Bank gives great importance to the professional development its internal auditors. Due to the sensitive nature of its operations, the Bank encourages its internal auditors to acquire certificates which will increase the audit quality and strengthen the compliance with international audit standards. Within this scope, the Internal Audit Group consists of eight members holding eight international certificates, namely: 2 Certified Internal Auditors (CIA), 2 Certified Information Systems Auditors (CISA), 1 Certified Fraud Examiner (CFE), 1 Certified Financial Services Auditor (CFSA), 1 Certified Ethical Hacker (CEH), and 1 Certified Information Systems Manager (CISM).

The Bank also employs an auditor with an Advanced Level License of Capital Market Activities in the Internal Audit Group. With this group of qualified audit experts, T-Bank stands out among other banks in the sector in terms of the number of its certified personnel and the average length of experience they have.

The Internal Control Compliance Departments continue to conduct their operations in an aim to ensure that T-Bank's activities are in compliance with the legal conventions and the Bank's own regulations. The Departments seek also to ensure the integrity and reliability of the accounting and reporting systems as well as design the internal control systems for the related activities and processes.

**Within the scope of operations, the Internal Control and Compliance Departments aim to achieve the following:**

- The reliability and integrity of financial and administrative information
- Operational Efficiency
- Accurate and efficient utilization of resources
- Compliance with laws and regulations

The Internal Control Department performed its control activities along with those of the Compliance Unit until April 1, 2013 when the Compliance Unit was separated from Internal Control and began performing its activities as an independent department reporting to the Head of Risk Management Group, Internal Audit. In terms of frequency, scope, and methodology, the internal control function is run in a quick, contemporary, and efficient manner in compliance with the Bank's goals. During these activities, technological facilities are extensively utilized. The computer assisted audit techniques, particularly Audit Command Language (ACL) that is used by the Internal Control Department ensures that the transactions performed throughout the Bank are always kept under control.

During the central controls performed by the Head Office Internal Control Unit in 2013, the compliance of the information technologies, the business approaches of the branches, as well as the accounting processes of the Bank were ensured, the areas that may create operational risks were defined, and the necessary control activities were conducted.

ERNST & YOUNG

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**STATEMENT OF COMPLIANCE**

To The of Directors Bank Anomim Şirketi

We have audited the financial statements of Turkland Bank A.Ş. (the Bank) as at December 31.2013. Our audit is conducted in accordance with the prevailing accounting principles, bookkeeping regulations and auditing standards set out as per the Banking Act No: 5411. Our audit opinion for these financial statements is expressed in our independent audit report dated February 28, 2014.

In accordance with Article 402 no:6102 of the Turkish Commercial Code ("TCC"); the Board of Directors submitted us the necessary explanations and provided required documents within the context of audit. No significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period January 1-December 31, 2013 is not in compliance with the code and Bank's articles of association related to financial reporting.

Ayşe Zeynep Deldağ
Partner, SMMM

February 28,2014
İstanbul, Türkiye

# TURKLAND BANK A.Ş.

# THE INDEPENDENT AUDIT REPORT, NONCONSOLIDATED STATEMENTS AND FOOTNOTES CONCERNING THE STATEMENTS AS OF DECEMBER 31, 2013

# TURKLAND BANK ANONİM ŞİRKETİ

# FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

## Independent auditor's report

To the Board of Directors and Shareholders of
Turkland Bank A.Ş.

We have audited the accompanying financial statements of Turkland Bank A.Ş. (the Bank), which comprise the statement of financial position as at December 31, 2013 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

İstanbul, Turkey
February 28, 2014

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013
Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

## INDEX

# TURKLAND BANK ANONİM ŞİRKETİ

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2013

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

| | Notes | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and due from banks | 3 | 309,651 | 121,082 |
| Money market placements and funds rent under resale agreements | | 70,015 | 152,025 |
| Balances with Central Bank | 4 | 367,156 | 267,040 |
| Financial assets at fair value through profit or loss | 5 | 116 | 182 |
| Derivative financial instruments | 14 | 149 | 5 |
| Loans and advances | 6 | 2,655,789 | 2,004,926 |
| Investment securities: | 5 | 216,905 | 140,110 |
| - Available-for-sale | | 184,214 | 108,816 |
| - Held-to-maturity | | 32,691 | 31,294 |
| Securities pledged under repurchase agreements | 5 | 387,807 | 209,804 |
| - Available-for-sale | 5 | 321,603 | 170,139 |
| - Held-to-maturity | 5 | 66,204 | 39,665 |
| Premises and equipment | 7 | 36,013 | 11,380 |
| Intangible assets | 8 | 20,674 | 1,037 |
| Deferred tax asset | 13 | 10,552 | 5,374 |
| Current tax asset | 13 | 2,234 | - |
| Other assets | 9 | 24,414 | 43,322 |
| **Total assets** | | **4,101,475** | **2,956,287** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Customers' deposits | 10 | 2,792,910 | 2,127,158 |
| Deposits from other banks | 10 | 44,227 | 22,155 |
| Obligations under repurchase agreements | 5 | 370,580 | 209,986 |
| Interbank money market borrowings | | 24,505 | - |
| Derivative financial instruments | 14 | 727 | 203 |
| Funds borrowed | 11 | 216,995 | 132,495 |
| Other liabilities | 12 | 72,219 | 69,311 |
| Provisions | 12 | 21,445 | 15,434 |
| Income taxes payable | 13 | - | 1,403 |
| **Total liabilities** | | **3,543,608** | **2,578,145** |
| **EQUITY** | | | |
| Share capital issued | 15 | 533,398 | 333,398 |
| Unrealized gains/(losses) on available-for-sale investments, net of tax | | (32,944) | 8,824 |
| Reserves | 16 | 9,221 | 3,713 |
| Retained earnings | 16 | 48,192 | 32,207 |
| Total equity | | **557,867** | **378,142** |
| **Total liabilities and equity** | | **4,101,475** | **2,956,287** |

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

# TURKLAND BANK ANONİM ŞİRKETİ

## INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2013

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

| | Notes | January 1 - December 31, 2013 | January 1 - December 31, 2012 |
|---|---|---|---|
| Interest income | 18 | 280,526 | 263,230 |
| Interest expenses | 19 | (160,160) | (153,728) |
| **Net interest income** | | **120,366** | **109,502** |
| **Fees and commissions and other operating income** | | | |
| Fees and commissions income | 21 | 23,648 | 22,748 |
| Fees and commissions expenses | 21 | (1,368) | (953) |
| **Net fees and commissions income** | | **22,280** | **21,795** |
| Trading gain/(loss), net | 22 | 8,265 | 1,590 |
| Provisions for impairment of loans and receivables | 6-12 | (6,099) | (18,442) |
| Foreign exchange gain / (loss), net | | (1,403) | 2,081 |
| Other income | 20 | 4,510 | 3,034 |
| **Operating expenses** | 23 | (121,731) | (94,282) |
| **Operating profit** | | **26,188** | **25,278** |
| Dividend income | | - | 7 |
| **Profit/ (loss) before income tax** | | **26,188** | **25,285** |
| Income tax – current | 13 | - | (9,454) |
| Income tax – deferred | 13 | (5,263) | 4,340 |
| **Net profit from continuing operations** | | **20,925** | **20,171** |

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

# TURKLAND BANK ANONİM ŞİRKETİ

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013

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

| | January 1-December 31, 2013 | January 1-December 31, 2012 |
|---|---|---|
| **Net profit for the year** | **20,925** | **20,171** |
| **Other comprehensive income** | | |
| Fair value gains on available-for-sale financial assets, net of tax | | |
| Net change in fair values | (44,804) | 22,776 |
| Net amount transferred to income | (7,405) | (3,011) |
| Deferred tax on valuation differences | 10,441 | (3,952) |
| **Other comprehensive income for the year, net of tax** | **(41,768)** | **15,813** |
| **Total comprehensive income for the year** | **(20,843)** | **35,984** |

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

# TURKLAND BANK ANONİM ŞİRKETİ

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2013

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

| | Notes | Share capital issued | Adjustment to share capital | Legal reserves, statutory reserves, extraordinary reserves (*) | Unrealized gains/(losses) on available-for-sale investments, net of tax | Accumulated losses/(Retained earnings) | Total |
|---|---|---|---|---|---|---|---|
| **At January 1, 2012** | | **300,000** | **33,398** | **3,535** | **(6,989)** | **12,214** | **342,158** |
| Total comprehensive income for the year | | - | - | - | 15,813 | 20,171 | 35,984 |
| Transfer to legal reserves, statutory reserves and extraordinary reserves | | - | - | 178 | - | (178) | - |
| **At December 31, 2012** | **16** | **300,000** | **33,398** | **3,713** | **8,824** | **32,207** | **378,142** |
| **At January 1, 2013** | | **300,000** | **33,398** | **3,713** | **8,824** | **32,207** | **378,142** |
| Total comprehensive income for the year | | - | - | - | (41,768) | 20,925 | (20,843) |
| Transfer to legal reserves, statutory reserves and extraordinary reserves (**) | | - | - | 5,508 | - | (4,940) | 568 |
| Share capital increase | | 200,000 | - | - | - | | 200,000 |
| **At December 31, 2013** | **16** | **500,000** | **33,398** | **9,221** | **(32,944)** | **48,192** | **557,867** |

(*)As of December 31, 2013 the Bank's legal reserves amount to TRY 1,602 and other reserves amount to TRY 7,051.

(**) Represents acturial gains and losses amount after January 1, 2013 are accounted under equity in accordance with revised IAS 19.

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

# TURKLAND BANK ANONİM ŞİRKETİ

## STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2013

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

| | Notes | January 1 – December 31, 2013 | January 1 – December 31, 2012 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net profit for the year | | 20,925 | 20,171 |
| **Adjustments for:** | | | |
| Depreciation and amortization | 7-8-23 | 8,066 | 5,057 |
| Provision for impairment of loans and advances | 6-12 | (2,945) | 18,442 |
| Provision for employment termination benefits | 12 | 692 | 2,535 |
| Other provision expenses | 12 | (6,317) | 5,148 |
| Foreign exchange gain /(loss) | | (31,007) | 5,709 |
| Taxation | 13 | 5,264 | 5,114 |
| Accrued interest, net | | (69,337) | 20,258 |
| **Operating profit before changes in operating assets/liabilities** | | **(74,659)** | **82,434** |
| **Changes in operating assets and liabilities:** | | | |
| Reserve deposits with Central Bank | | (149,265) | (61,671) |
| Other assets | | (2,193) | (23,274) |
| Trading securities | | 59 | (1) |
| Loans and advances | | (619,492) | (585,118) |
| Deposits | | 870,575 | 665,131 |
| Other creditors, taxes & liabilities | | 34,058 | 25,175 |
| Income taxes paid | | (1,403) | (7,879) |
| Employment termination benefits paid | 12 | (545) | (385) |
| **Net cash provided by operating activities** | | **57,135** | **94,412** |
| **Cash flows from investing activities** | | | |
| Additions to premises and equipment | | (3,964) | (1,935) |
| (Additions) to intangible assets | 8 | (24,573) | (465) |
| Cash paid for purchase of financial assets available-for-sale | | (387,728) | (253,172) |
| Proceeds from sale of financial assets available-for-sale | | 127,216 | 273,850 |
| Net book value of disposed premises and equipment | | 3,386 | 1,210 |
| Cash paid for purchase of held-to-maturity investment securities | | (82,678) | (67,307) |
| Proceeds from redemption of held-to-maturity investment securities | | 53,130 | 49,623 |
| **Net cash used in investing activities** | | **(315,211)** | **1,804** |
| **Cash flows from financing activities** | | | |
| Share capital increase | | 200,000 | - |
| Repayments of funds borrowed | | (130.251) | (104.731) |
| Proceeds from funds borrowed | | 214.726 | 131.391 |
| **Net cash provided by financing activities** | | **284,475** | **26,660** |
| **Effect of change in foreign exchange rates on cash and cash equivalents** | | **31,007** | **(5,709)** |
| **Net increase in cash & cash equivalents** | | **57,406** | **117,167** |
| Cash and cash equivalents at the beginning of the year | | 358,938 | 241,771 |
| **Cash and cash equivalents at the end of the year** | 3 | **416,343** | **358,938** |

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

# TURKLAND BANK ANONİM ŞİRKETİ

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

### 1. CORPORATE INFORMATION

Turkland Bank Anonim Şirketi ("the Bank") was established in 1991 in Istanbul under the name of "Bahreyn ve Kuveyt Bankası Anonim Şirketi" (BB&K). Its name was changed as "Tasarruf ve Kredi Bankası Anonim Şirketi" with its acquisition by Doğuş Group in 1992. After the change in the name of the Bank as "Garanti Yatırım ve Ticaret Bankası Anonim Şirketi"in 1994, Mehmet Nazif Günal (the main shareholder of MNG Group Companies) acquired the Bank in 1997 and the name of the Bank was changed as "MNG Bank Anonim Şirketi".

An agreement was made with Arab Bank PLC and BankMed SAL relating to the sale of 91% of MNG Bank shares in mid-2006 and this agreement was approved by the Banking Regulation and Supervision Agency (BRSA) on December 29, 2006. In this regard, while Arab Bank and BankMed purchased 50% and 41% of MNG Bank shares respectively, Mehmet Nazif Günal retained 9% of the shares. The transfer of the Bank shares was realized on January 29, 2007. The title of the Bank was changed as "Turkland Bank Anonim Şirketi" with the amendment to the Articles of Association by the decision of the Extraordinary General Assembly at the meeting on March 22, 2007.

On April 3, 2007, the title of the Bank was registered as "Turkland Bank Anonim Şirketi".

According to the Share Sale and Purchase Agreement and Board of Directors' Decision dated February 26, 2010 and July 15, 2012 respectively, Mehmet Nazif Günal's 153 million shares with TRY 15,300 thousand nominal value were purchased by BankMed SAL. As of July 22, 2010 the share transfer was realized.

According to the Extraordinary General Assembly decision dated May 30, 2011, it was decided to increase the Bank's capital from TRY 170,000 thousand to TRY 300,000 thousand, and it was registered in the Turkish Trade Registry Gazette dated June 20, 2011 numbered 7840. According to the Banking Regulation and Supervision Agency (BRSA) Approval dated September 15, 2011 numbered 4381 the unused preemptive right of Arab Bank Plc amounting to TRY 65,000 thousand have been used by Arab Bank (Switzerland) Ltd (ABS). Capital commitments which are amounting to TRY 130,000 thousand have been paid by shareholders and according to the BRSA decision dated October 20, 2011 numbered 22244 it has been transferred to the share capital accounts.

According to the Ordinary General Assembly decision dated April 18, 2013, it has been decided to increase the Bank's paid in capital from TRY 300 million to TRY 500 million. The capital increase is committed to be paid in two equal installments, each one amounting to TRY 100 million, respectively on April 30, 2013 and October 30, 2013. BankMed SAL, shareholder of the Bank by 50%, has paid in cash TRY 50.0 million corresponding to its share for the capital increase; Arab Bank PLC, shareholder of the Bank by 28.3%, has paid in cash TRY 28.3 million corresponding to its share for the capital increase; Arab Bank (Switzerland), shareholder of the Company by 21.7%, has paid in cash TRY 21.7 million corresponding to its share for the capital increase. The capital commitments paid by the shareholders were transferred into the share capital accounts with the approval of BRSA dated May 28, 2013 and numbered 13388.

For the second installment of the capital increase; BankMed SAL, shareholder of the Bank by 50%, has paid in cash TRY 50 million corresponding to its share for the capital increase in October 4, 2013, Arab Bank PLC, shareholder of the Bank by 28.3%, has paid in cash TRY 28.3 million corresponding to its share for the capital increase and Arab Bank (Switzerland), shareholder of the Bank by 21.7%, has paid in cash TRY 21.7 million corresponding to its share for the capital increase in October 21, 2013. The capital commitments paid by the shareholders were transferred into the share capital accounts with the approval of BRSA dated November 11, 2013 and numbered 28000.

According to the Board of Directors decision dated September 28, 2013, it has been decided to increase the Bank's paid in capital from TRY 500 million to TRY 650 million.

As of December 31, 2013, the Bank has 27 branches in (December 31,2012; 27 branches) Turkey and its head office is at 19 Mayıs Mah. 19 Mayıs Cad. Şişli Plaza A Blok No: 7 Şişli-İstanbul. The parent and ultimate parent of the Bank is BankMed, SAL.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. CORPORATE INFORMATION (continued)

The financial statements of the Bank were authorized for issue by the management on February 28, 2013. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

### 2.1 Basis of Presentation of Financial Statements

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS"). The principal accounting policies adopted in the preparation of these financial statements are set out below.

The Bank maintains its books of account and prepares its financial statements in Turkish Lira, which is the currency of the primary economic environment in which the Bank operates, in accordance with the Banking Act, based on accounting principles regulated by the "BRSA", the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish Tax Legislation.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention, except for trading securities, derivatives and available-for-sale securities which are measured at fair value, with adjustments and reclassifications for the purposes of fair presentation in accordance with IFRS. These financial statements are presented in Turkish Lira since that is the currency in which the majority of the Bank's transactions are denominated.

The accompanying IFRS financial statements adopt the accounting principles and policies applied by the BRSA in the Bank's statutory financial statements wherever those do not conflict with IFRS.

### 2.2 Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

**Going concern**

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances - for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost.

**Impairment losses on loans and advances**

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

**Impairment of available-for-sale investments**

The Bank reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

**Deferred tax assets**

Deferred tax assets are recognized in respect of tax losses if any, to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

**Employee termination benefits**

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.Actuarial gains/losses are recorded under other comprehensive income as per revised IAS 19R

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Functional and Presentation Currency

Functional and presentation currency of the Bank is Turkish Lira (TRY).

Financial statements for the year ended December 31, 2005 were the last set of financial statements that were restated for the changes in the general purchasing power of the functional currency based on International Accounting Standard No. 29 ("IAS 29") "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and that corresponding figures for previous periods be restated in the same terms.

As hyperinflationary conditions in Turkey no longer existed starting from January 1, 2006, Turkish Lira ("TRY") has been treated as a more stable currency since that time and the financial statements of the Bank prepared in accordance with IFRSs are not required to be adjusted further for hyperinflationary accounting.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the income statement.

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

| | EUR / TRY | USD / TRY |
|---|---|---|
| December 31, 2011 | 2.4442 | 1.8836 |
| December 31, 2012 | 2.3576 | 1.7833 |
| December 31, 2013 | 2,9629 | 2,1512 |

### 2.5 Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and impairment as at the reporting date. Premises and equipment, except land that is deemed to have indefinite life, are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

| | |
|---|---|
| Safes | 2%-10% |
| Vehicles, Furniture and Fittings | 6%-35% |
| Leasehold Improvements | 6.6%-20% |

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

The costs of a major inspection or overhaul that are accounted as a separate asset component are capitalized. Subsequent expenditures incurred on the premises and equipment, are added to the carrying amount of the asset when it is probable that the future economic benefits in excess of the originally assessed standard of performance of the asset will flow to the entity. All other subsequent expenditures and major inspection or overhaul costs that are embodied in the item of property and equipment are recognized as an expense when it is incurred.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6 Intangible Assets

Computer Software Development Costs:

The Bank generally recognizes computer software development costs as expenses in the period in which they are incurred. However, if it is probable that future economic benefits will flow to the Bank, to the extent that assets created can be identified and create future economic benefit and expenditures can reliably be measured and attributable to the asset, development costs incurred are incorporated into the initial cost of computer software. All other subsequent expenditure associated with the maintenance of the existing computer software is recognized as expense in the period in which it is incurred.

Computer software development costs capitalized as assets are amortized on a straight line basis over their expected useful lives, which is generally three years.

### 2.7 Investments and Other Financial Assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value (net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value). The Bank determines the classification of its financial assets at initial recognition.

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

***a) Financial assets at fair value through profit or loss***

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which are either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held-for-trading are recognized in income and include any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 25.

***b) Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***c) Loans and receivables***

Loans and advances to customers, include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

-Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;

-Those that the Bank, upon initial recognition, designates as available-for-sale; or

-Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and advances to customers are subsequently measured at amortized cost using the effective interest rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in interest income in the income statement. The losses arising from impairment are recognized in the income statement in provisions for impairment of loans and receivables.

***d) Available-for-sale financial assets***

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

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Bank's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

The following equity investment which is shown under securities available-for-sale has been accounted for at cost:

| Entity | Sector | The Bank's Ownership % |
|---|---|---|
| İMKB Takas ve Saklama Bankası A.Ş. | Settlement and Custody Bank | 0.025 |

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***e) Repurchase and Resale Transactions***

Purchases or sales of investments under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as financial assets at fair value through profit or loss, investments held-to- maturity or investments available-for-sale, and interest expense is accounted for on an accrual basis over the period of the transactions.

Purchases of securities under agreements of resale ("reverse repos") are separately disclosed under assets as "funds lent under securities resale agreements" and interest income on such transactions is accounted for on an accrual basis over the period of transactions.

### 2.8 Impairment of Financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The collections made related to loans for which provision is made in the current period are reversed from the "Provision for Loans and Other Receivables" account in the income statement. The collections made related to loans written off or provisioned in prior years are recorded under "Other Income" and related interest income is credited to the "Interest Received from Non-performing Loans" account.

**(i) Financial assets carried at amortized cost**

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Impairment of Financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**(ii) Renegotiated loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original EIR as calculated before the modification of terms
and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

**(iii) Financial assets classified as available for sale**

In the case of debt instruments classified as available-for-sale, the Bank asseses indicvidually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "interest income".
If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively relatd to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classififed as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statements. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in equity.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Derecognition of Financial Assets and Financial Liabilities

*(i)* Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

-The rights to receive cash flows from the asset have expired; or

-The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
and either:

-the Bank has transferred substantially all the risks and rewards of the asset,
-or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

*(ii)* Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

### 2.10 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in "Provisions for impairment of loans and receivables".

### 2.11 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.This is not generally the case with master netting agreements,therefore, the related assets and liabilities are presented gross in the statement of financial position.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with Central Bank (excluding obligatory reserve deposits), deposits with banks and other financial institutions, other money market placements and funds lent under resale agreements with an original maturity of three months or less.

### 2.13 Impairment of Non-financial Assets

At each financial statement of position, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### 2.14 Borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings.

### 2.15 Employee Benefits

*Defined Benefit Plans:*

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

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

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Bank uses independent actuaries and also makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 12 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2013 is TRY 5,314 (December 31, 2012: TRY 4,898).

The Bank is also required to make a payment for the period of notice calculated over each service year of the employee whose employment is terminated for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS No:19R

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Employee Benefits (continued)

Actuarial gains/losses are recorded under other comprehensive income as per revised IAS 19R

The Bank has no retirement fund or foundation that the employees are the member of.

*Defined Contribution Plans:*

The Bank pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

### 2.16 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

### 2.17 Leases

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

*The Bank as Lessee*

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

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

### 2.18 Income and Expense Recognition

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. The Bank earns fee and commission income from a diverse range of services it provides to its customers. All fees and commission income/expenses are recognized as income at the time of realization and during the service is provided. Loan related fees and commissions paid to or received from the other institutions are considered as transaction costs and accounted using the effective interest method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on 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 in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax 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 are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which 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 (other than in a business combination) 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 balance sheet date and 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

### 2.20 Derivative Financial Instruments

The Bank's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. In the normal course of business, the Bank enters into a variety of derivative transactions principally in the foreign exchange markets. These are used to provide financial services to customers and to actively take, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the balance sheet from a variety of activities including placements, lending and securities investment. The majority of the counterparties in the Bank's derivative transactions are banks and other financial institutions.

The Bank uses derivative financial instruments (primarily foreign currency forward and swap contracts) to hedge its risks associated with foreign currency fluctuations.

The use of financial derivatives is governed by the Bank's policies approved by the Board of Directors, on the use of financial derivatives consistent with the Bank's risk management strategy.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates, as estimated based on the observable market data prevailing at the reporting date. All unrealized gains and losses on these instruments are included in the income statement. Unrealized gains and losses on these instruments are not deductible for current tax purposes.

### 2.21 Fiduciary Assets

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

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Adoption of New and Revised Standards

The accounting policies adopted in preparation of the financial statements as at December 31,2013 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2013. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

The new standards, amendments and interpretations which are effective as at 1 January 2013 are as follows:

**IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendment)**

The amendment requires the disclosure of the rights of the entity relating to the offsetting of the financial instruments and some information about the related regulations (eg, collateral agreements).

New disclosures would provide users of financial statements with information that is useful in;

i) evaluating the effect or potential effect of netting arrangements on an entity's financial position and,

ii) analyzing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards.

New disclosures have to be provided for all the financial instruments in the balance sheet that have been offset according to IAS 32. Such disclosures are applicable to financial instruments in the balance sheet that have not been offset according to IAS 32 but are available for offsetting according to main applicable offsetting regulations or other financial instruments that are subject to a similar agreement. The amendment affects disclosures only and do not have any impact on the financial statements of the Bank.

**IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income**

The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. The amendment affects presentation only and do not have an impact on the financial position or performance of the Bank.

**IAS 19 Employee Benefits (Amended)**

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism, for determined benefit plans recognizing actuarial gain/(loss) under other comprehensive income and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement.The Bank used to recognize the actuarial gain and loss in profit and loss statement before this amendment

**IFRS 13 Fair Value Measurement**

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. The new disclosures are only required for periods beginning after IFRS 13 is adopted. This standard do not have an impact on the financial statements of the Bank.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

Entities are required to apply its requirements for production phase stripping costs incurred from the start of the earliest comparative period presented. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The interpretation is not applicable the Bank and do not have any impact on the financial position or performance of the Bank.

**Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IFRS 11 and IFRS 12 has also been amended to provide transition relief. These amendments do not have an impact on the financial statements of the Bank.

**Improvements to IFRSs**

Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards, is effective for annual periods beginning on or after 1 January 2013. This project did not have an impact on the financial position or performance of the Bank..

**IAS 1 Financial Statement Presentation:**

Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

**IAS 16 Property, Plant and Equipment:**

Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

**IAS 32 Financial Instruments: Presentation:**

Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

**IAS 34 Financial Reporting:**

Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment**.**

**Standards issued but not yet effective and not early adopted**
Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)**

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014. The Bank does not expect that these amendments will have significant impact on the financial position or performance of the the Bank.

**IFRS 9 Financial Instruments – Classification and measurement**

As amended in December 2011, the new standard is effective for annual periods beginning on or after 1 January 2015. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

**IFRIC Interpretation 21 Levies**

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after 1 January 2014, with early application permitted. Retrospective application of this interpretation is required. The Bank does not expect that this amendment will have any impact on the financial position or performance of the Bank.

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

As a consequential amendment to IFRS 13 Fair Value Measurement, some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets has been modified. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. The Bank does not expect that this amendment will have any impact on the financial position or performance of the bank.

**Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting**

Amendments to IAS 39 Financial Instruments: Recognition and Measurement provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. The bank does not expect that this amendment will have any impact on the financial position or performance of the bank.

**The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA**

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the interim financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of IFRS. The Bank.will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under IFRS.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**IFRS 10 Consolidated Financial Statements (Amendment)**

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS. This amendment will not have any impact on the financial position or performance of the Bank.

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

The IASB, as a consequential amendment to IFRS 13 Fair Value Measurement, modified some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. The Bank does not expect that this amendment will have any impact on the financial position or performance of the the Bank.

**Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting**

In June 2013, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement that provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. The Bank does not expect that this amendment will have any impact on the financial position or performance of the Bank.

**IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)**

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging relationships. The standard does not have a mandatory effective date, but it is available for application now; a new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. The Bank.is in the process of assessing the impact of the standard on financial position or performance of the the Bank.

**Annual Improvements to IFRSs – 2011–2013 Cycle**

**IFRS 3 Business Combinations**

The amendment clarifies that: i) Joint arrangements are outside the scope of IFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

**IFRS 13 Fair Value Measurement**

The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective prospectively.

**IAS 40 Investment Property**

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The amendment is effective prospectively.

These amendments do not have an impact on the financial position or performance of the Bank.

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## 3. CASH AND DUE FROM BANKS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Cash on hand | 23,254 | 23,556 |
| Due from banks | 286,397 | 97,526 |
| **Cash and due from banks** | **309,651** | **121,082** |

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Demand deposits-Turkish Lira | 29 | 13 |
| Demand deposits- Foreign Currency | 7,580 | 2,463 |
| Time bank deposits-Turkish Lira | 80,016 | - |
| Time bank deposits- Foreign Currency | 198,772 | 95,050 |
| **Due from banks** | **286,397** | **97,526** |

The effective interest rates on time bank deposits are as follows:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Annual average interest rate | | Annual average interest rate | |
| | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency |
| Time bank deposits | 7.00% | 0.21%-0.22% | 7.18% | 0.13%-0.25% |

Cash and cash equivalents included in the statements of cash flows for the years ended December 31, 2013 and 2012 are as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | 379,668 | 273,107 |
| Balances with Central Bank (Note 4) | 36,708 | 85,857 |
| Less: income accruals | (33) | (26) |
| **Cash and cash equivalents** | **416,343** | **358,938** |

## 4. BALANCES WITH CENTRAL BANK

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Balances with Central Bank | 36,708 | 85,857 |
| Reserve deposits | 330,448 | 181,183 |
| **Balances with Central Bank** | **367,156** | **267,040** |

According to the "Communiqué on Amendments to be made on Communiqué on Required Reserves" of Central Bank of the Republic of Turkey dated December 25, 2013 and numbered 28862, reserve deposit calculation principles and calculation method has changed however reserve deposit rates did not change . New method and calculation will be applicable as of the January 17, 2014.

According to the "Communiqué on Amendments to be made on Communiqué on Required Reserves" of Central Bank of the Republic of Turkey numbered 2011/11 and 2011/13 reserve deposit rates applied to TRY and FC liabilities has changed.

The current required reserve rates as of the date of approval of the financial statements are as follows:

FC reserve deposits rates:

| FX demand deposits, notice deposits and FX private current accounts, FX deposits/FX participation accounts up to 1-month, up to 3-month, up to 6-month and up to 1-year maturities | FX deposits/FX participation accounts with 1-year and longer maturity and cumulative FX deposits/ FX participation accounts | FX Special fund pools | FX liabilities up to 1-year maturity (including 1-year) | FX liabilities up to 3-year maturity (including 3-year) | FX liabilities longer than 3-year maturity |
|---|---|---|---|---|---|
| %13.00 | %9.00 | Ratios for corresponding maturities | %13.00 | %11.00 | %6.00 |

TRY reserve deposits rates:

| Demand deposits,notice deposits and private current accounts | Deposits/ participation accounts up to 1-month maturity (including 1-month) | Deposits/ participation accounts up to 3-month maturity (including 3-month) | Deposits/ participation accounts up to 6-month maturity (including 6-month) | Deposits/ participation accounts up to 1-year maturity | Deposits/ participation accounts with 1-year and longer maturity and cumulative deposits/ participation accounts | Other liabilities up to 1-year maturity (including 1-year) | Other liabilities up to 3-year maturity (including 3-year) | Other liabilities with longer 3-year maturity |
|---|---|---|---|---|---|---|---|---|
| %11,50 | %11,50 | %11,50 | %8,50 | %6,50 | %5.00 | %11,50 | %8.00 | %5.00 |

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## 5. INVESTMENTS IN FINANCIAL INSTRUMENTS

### 5.1 Financial assets at fair value through profit and loss:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Debt instruments | | |
| Turkish government bonds | 116 | 182 |
| **Total financial assets at fair value through profit and loss** | **116** | **182** |

### 5.2 Investment securities:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Available- for-sale securities-Quoted | | |
| Turkish government bonds | 184,132 | 108,734 |
| Eurobonds issued by the Turkish government | 3 | 3 |
| Total available for sale securities-Quoted | **184,135** | **108,737** |
| Available- for-sale securities-Unquoted | | |
| Equity instruments | 79 | 79 |
| Total available for sale securities-Unquoted | **79** | **79** |
| **Total available for sale securities** | **184,214** | **108,816** |
| Held-to-maturity securities-Quoted | | |
| Turkish government bonds | 32,691 | 31,294 |
| **Total held-to-maturity securities** | **32,691** | **31,294** |
| **Total investment securities** | **216,905** | **140,110** |

In line with the accounting policy of the Bank, the Bank's investment of TRY 79 is recorded at cost since its fair value cannot be reliably estimated (December 31, 2012: TRY 79).

### 5.3 Securities pledged under repurchase agreements:

Carrying value of debt instruments given as collateral under repurchase agreements which are classified as loaned securities and related liabilities are:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Assets | Related Liability | Assets | Related Liability |
| Available –for- sale securities (treasury bills) | 321,603 | 307,226 | 170,139 | 169,910 |
| Held –to- maturity securities (government bond) | 66,204 | 63,354 | 39,665 | 40,076 |
| **Carrying value of securities under repurchase agreements** | **387,807** | **370,580** | **209,804** | **209,986** |

## 5. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

Repurchase agreements mature within one month.

Available-for-sale securities given as collateral for Interbank money market and open market transactions and Takasbank are TRY 57,371, TRY 20,368 and TRY 777 respectively. (December 31, 2012: Available-for-sale securities given as collateral for Stock Exchange and Foreign Exchange Markets are TRY 968 and TRY 33,274 respectively.)

Held-to-maturity investments given as collateral for open market transactions in Central Bank and Interbank Markets are TRY 6,683 and TRY 5,142, respectively and TRY 17,516 is kept as collateral in Takasbank for making transactions in Stock Exchange as of December 31, 2013. (December 31, 2012: Held-to-maturity investments with carrying values of TRY 6,057, TRY 3,845 and TRY 16,640 are provided as collateral for İstanbul Stock Exchange, Interbank Money Market and other; respectively)

TRY 466,493 (December 31, 2012: TRY 132,125) of debt securities have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

The interest rates for floating TL investment securities are between 0.50% and 4.56%. The interest rates for fixed rate TL currency investment securities are between 2.00% and 5.25% and foreign currency investment securities is 3.69%. (December 31, 2012: The interest rates for floating TL investment securities are between 1.25% and 4.96%. The interest rates for fixed rate TL currency investment securities are between 2.00% and 5.25%, respectively)

## 6. LOANS AND ADVANCES

| | December 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Amount | Effective interest rate | | Amount | Effective interest rate | |
| | | Turkish Lira (*) | Foreign Currency | | Turkish Lira (*) | Foreign Currency |
| Corporate loans | 1,876,363 | 4.00%-24.24% | 2.35%-9.00% | 1,479,310 | 5.40%-63.00% | 2.82%-10.08% |
| Small business loans | 749,199 | 3.75%-30.00% | 2.65%-10.8% | 491,647 | 5.40%-63.00% | 2.82%-10.08% |
| Retail loans | 9,228 | 1.32%-26.40% | | 12,877 | 1.32%-63.00% | - |
| **Total performing loans** | **2,634,790** | | | **1,983,834** | | |
| Non-performing loans | 69,874 | | | 68,544 | | |
| Less: Specific reserve for impairment | (22,554) | | | (23,315) | | |
| Less: Portfolio reserve for impairment | (26,321) | | | (24,137) | | |
| **Total** | **2,655,789** | | | **2,004,926** | | |

* Effective interest rates of overdraft loans are included.

The above distribution has been made based on the business lines.

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## 6. LOANS AND ADVANCES (continued)

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Corporate, commercial and small business loans | 2,566,252 | 1,946,396 |
| - Export loans | 460,444 | 295,339 |
| - Loans given to financial sector | 147,521 | 45,067 |
| - Foreign loans | 28 | 144 |
| - Discount notes | 1,782,003 | 1,561,176 |
| - Other | 176,256 | 44,670 |
| Consumer loans(*) | 68,538 | 37,438 |
| **Performing loans** | **2,634,790** | **1,983,834** |
| Non-performing loans | 69,874 | 68,544 |
| **Total loans and advances to customers** | **2,704,664** | **2,052,378** |
| Provision for impairment | (48,875) | (47,452) |
| - Specific allowance for impairment | (22,554) | (23,315) |
| - Collective allowance for impairment | (26,321) | (24,137) |
| **Net loans and advances to customers** | **2,655,789** | **2,004,926** |

(*) Comprises of mortgage,automotive and personal loans .

The above distribution has been made based on the account codes.

Non-performing loans represent impaired loans and receivables on which interest is not being accrued and loans overdue generally for more than 90 days for which interest is suspended.

| December 31, 2013 | Corporate | Small Business | Retail | Total |
|---|---|---|---|---|
| Neither past due nor impaired | 1,759,561 | 701,461 | 6,877 | 2,467,899 |
| Past due not impaired(*) | 116,801 | 47,739 | 2,351 | 166,891 |
| Individually impaired | 47,001 | 22,331 | 542 | 69,874 |
| Total gross | 1,923,363 | 771,531 | 9,770 | 2,704,664 |
| Less: allowance for individually impaired loans | (15,566) | (6,595) | (393) | (22,554) |
| Less: allowance for collectively impaired loans | (18,909) | (7,309) | (103) | (26,321) |
| Total Allowance for impairment | (34,475) | (13,904) | (496) | (48,875) |
| **Total net** | **1,888,887** | **757,627** | **9,274** | **2,655,789** |

| December 31, 2012 | Corporate | Small Business | Retail | Total |
|---|---|---|---|---|
| Neither past due nor impaired | 1,411,240 | 452,265 | 10,852 | 1,874,357 |
| Past due not impaired | 68,071 | 39,382 | 2,024 | 109,477 |
| Individually impaired | 51,650 | 16,462 | 432 | 68,544 |
| Total Gross | 1,530,961 | 508,109 | 13,308 | 2,052,378 |
| Less: allowance for individually impaired loans | (15,694) | (7,271) | (350 ) | (23,315) |
| Less: allowance for collectively impaired loans | (17,998) | (5,982) | (157) | (24,137) |
| Total Allowance for impairment | (33,692) | (13,253) | (507) | (47,452) |
| **Total net** | **1,497,269** | **494,856** | **12,801** | **2,004,926** |

(*) Past due not impaired loans include also loan customers not past due however monitored closely by the Bank.
The above distribution has been made based on the business lines.

## 6. LOANS AND RECEIVABLES (continued)

A reconciliation of the allowance for individually impaired loans is as follows;

| December 31, 2013 | Total | December 31, 2012 | Total |
|---|---|---|---|
| At January 1 | 23,315 | At January 1 | **11,296** |
| Charge for the year | 17,873 | Charge for the year | 17,775 |
| Sales of non-performing loans (NPL) (*) | (12,043) | Sales of non-performing loans (NPL) | - |
| Recoveries | (6,591) | Recoveries | (5,756) |
| Amounts written off | | Amounts written off | - |
| Reclassification from other liabilities and provisions, net of recoveries | - | Reclassification from other liabilities and provisions, net of recoveries | - |
| **At December 31** | **22,554** | **At December 31** | **23,315** |

* Upon the request of legal counsel and loan department for doubtful loans that has no proof to recover is evaluated according to the authority delegated by the Board of Directors. The bank sold non-performing loan portfolio consisting 162 provisioned customers amounting to kTRY12.043, to Turkasset Varlık Yönetim A.Ş. at November 27, 2013 with the sales price is set of kTRY316 and removed from records.

Movements in the allowance for impaired loans:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| At January 1 | 47,452 | 28,284 |
| Reclassification from other liabilities and provisions, net of recoveries | - | - |
| Provision for impairment | 25,842 | 24,924 |
| Recoveries | (12,376) | (5,756) |
| Provision net recoveries | 13,466 | 19,168 |
| Loans sold and written off during the year | (12,043) | - |
| **At December 31** | **48,875** | **47,452** |

The fair value of collaterals which the Bank holds for loans individually determined to be impaired as of December 31, 2013 amounts to TRY 59,340. (December 31, 2012: TRY 56,848).

TRY 27,654 amount of properties are transferred to the ownership of the Bank in 2013 period and in the same period TRY 846 amount of it has been sold.There are no other credit enhancements obtained during the period (December 31, 2012: None). Moreover, TRY 541 amount of properties transferred to the ownership of the Bank before 2013 year have been sold.

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

| December 31, 2013 | Less than 30 days | 31-60 days | 61-90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| Loans and receivables | | | | | |
| *Corporate lending* | 89,273 | 13,708 | 13,818 | - | 116,799 |
| *Small business lending* | 32,585 | 6,599 | 8,555 | - | 47,739 |
| *Retail lending* | 1,319 | 964 | 70 | - | 2,353 |
| **Total** | 123,177 | 21,271 | 22,443 | - | 166,891 |

| December 31, 2012 | Less than 30 days | 31-60 days | 61-90 days | More than 91 days | Total |
|---|---|---|---|---|---|
| Loans and receivables | | | | | |
| *Corporate lending* | 55,801 | 5,872 | 6,398 | - | 68,071 |
| *Small business lending* | 35,407 | 3,893 | 82 | - | 39,382 |
| *Retail lending* | 1,239 | 785 | - | - | 2,024 |
| **Total** | 92,447 | 10,550 | 6,480 | - | 109,477 |

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## 6. LOANS AND RECEIVABLES (continued)

The fair value of collaterals, capped with the respective outstanding loan balance, that the Bank held as of December 31, 2013 is TRY 258,283 (December 31, 2012: TRY 172,020) for the total aggregate amount of gross past due but not yet impaired loans and advances to customers.

Loans and advances amounting to TRY 1,343,836 are revolving loans that have maturity up to one month and floating interest rates (December 31, 2012: TRY 1,177,490) and the remaining TRY 1,290,954 have fixed interest rates. (December 31, 2012: TRY 806,344).

## 7. PREMISES AND EQUIPMENT

| | Machinery and Equipment | Furniture and Fixture | Leasehold Improvements | Others | Total |
|---|---|---|---|---|---|
| **Acquisition Cost** | | | | | |
| At January 1, 2012 | 4,908 | 2,131 | 11,681 | 14,846 | 33,566 |
| Additions | 611 | 197 | 659 | 3,786 | 5,253 |
| Disposals | (44) | (66) | (58) | (1,250) | (1,418) |
| At December 31, 2012 | 5,475 | 2,262 | 12,282 | 17,382 | 37,401 |
| **Accumulated Depreciation** | | | | | |
| At January 1, 2012 | 3,338 | 1,375 | 7,484 | 9,648 | 21,845 |
| Charge for the year | 667 | 389 | 2,345 | 988 | 4,389 |
| Disposals | (29) | (69) | (63) | (52) | (213) |
| Write-off | - | - | - | - | - |
| At December 31, 2012 | 3,976 | 1,695 | 9,766 | 10,584 | 26,021 |
| **At December 31, 2012** | **1,499** | **567** | **2,516** | **6,798** | **11,380** |
| **Acquisition Cost** | | | | | |
| At January 1, 2013 | 5,475 | 2,262 | 12,282 | 17,382 | 37,401 |
| Additions | 1,474 | 132 | 447 | 27,265 | 29,318 |
| Disposals | (61) | (77) | (238) | (1,622) | (1,998) |
| At December 31, 2013 | 6,888 | 2,317 | 12,491 | 43,025 | 64,721 |
| **Accumulated Depreciation** | | | | | |
| At January 1, 2013 | 3,976 | 1,695 | 9,766 | 10,584 | 26,021 |
| Charge for the year | 760 | 235 | 1,058 | 750 | 2,803 |
| Disposals | (116) | - | - | | (116) |
| Write-off | - | - | - | - | - |
| At December 31, 2013 | 4,614 | 1,930 | 10,824 | 11,334 | 28,708 |
| **At December 31, 2013** | **2,268** | **387** | **1,667** | **31,691** | **36,013** |

## 7. PREMISES AND EQUIPMENT (continued)

| | Asset held for sale | Total |
|---|---|---|
| **Acquisition Cost** | | |
| At January 1, 2013 | 4,522 | 4,522 |
| Additions | 26,810 | 26,810 |
| Disposals | (1,388) | (1,388) |
| At December 31, 2013 | 29,944 | 29,944 |
| **Accumulated Depreciation** | | |
| At January 1, 2013 | 79 | 79 |
| Additions | 470 | 470 |
| Disposals | (37) | (37) |
| At December 31, 2013 | 523 | 523 |
| **At December 31, 2013** | **29,410** | **29,410** |

The reason for classification of asset held for sale in premises and equipment account is due to the fact that this classification does not meet the requirements of IFRS 5 criteria.

## 8. INTANGIBLE ASSETS

| | Software | Total |
|---|---|---|
| **Acquisition Cost** | | |
| At January 1, 2012 | 9,240 | 9,240 |
| Additions | 465 | 465 |
| Disposals | - | - |
| At December 31, 2012 | 9,705 | 9,705 |
| **Accumulated Depreciation** | | |
| At January 1, 2012 | 7,996 | 7,966 |
| Charge for the year | 672 | 672 |
| At December 31, 2012 | 8,668 | 8,668 |
| **At December 31, 2012** | **1,037** | **1,037** |
| **Acquisition Cost** | | |
| At January 1, 2013 | 9,705 | 9,705 |
| Additions | 24,572 | 24,572 |
| Disposals | - | - |
| At December 31, 2013 | 34,277 | 34,277 |
| **Accumulated Depreciation** | | |
| At January 1, 2013 | 8,668 | 8,668 |
| Charge for the year | 4,935 | 4,935 |
| At December 31, 2013 | 13,603 | 13,603 |
| **At December 31, 2013** | **20,674** | **20,674** |

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## 9. OTHER ASSETS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Settlements account | 16,499 | 24,691 |
| Prepaid expenses | 6,047 | 2,169 |
| Real estate endorsement expenses | 428 | 549 |
| Other advances | 10 | 243 |
| Advances for system investments (*) | - | 14,899 |
| Other | 1,430 | 771 |
| **Total** | **24,414** | **43,322** |

(*) System Investments amounting to TRY 14,899 as of December 31,2012 has been classified to intangible asset as a result of completion of IT system transition on April 2013.

## 10. DEPOSITS

| Deposits from banks | December 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Amount | Effective interest rate | | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency | | Turkish Lira | Foreign Currency |
| Demand | 1,866 | - | - | 825 | - | - |
| Time | 42,361 | 7.75% | 2.12% | 21,330 | 5.45% | 2.35% |
| **Total** | **44,227** | | | **22,155** | | |

| Customers' deposits | December 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Amount | Effective interest rate | | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency | | Turkish Lira | Foreign Currency |
| **Saving** | | | | | | |
| Demand | 13,747 | - | - | 24,640 | - | - |
| Time | 1,603,101 | 2.00%-10.15% | 0.60%-3.80% | 1,285,330 | 2.00%-12.25% | 0.6%-4,6% |
| | **1,616,848** | | | **1,309,970** | | |
| Commercial and other | | | | | | |
| Demand | 148,669 | - | - | 142,821 | - | - |
| Time | 1,027,393 | 5.00%-10.00% | 0.60%-3.80% | 674,367 | 5.00%-10.85% | 0.6%-4% |
| | **1,176,062** | | | **817,188** | | |
| **Total** | **2,792,910** | | | **2,127,158** | | |

All deposits have fixed interest for the years ended December 31, 2013 and 2012.

## 11. FUNDS BORROWED

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Borrowings | 216,995 | 132,495 |
| **Total** | **216,995** | **132,495** |

| | December 31, 2013 | | |
|---|---|---|---|
| | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency |
| Short-term | | | |
| Fixed interest | 162,278 | 5.58%-8.00% | 1.47%- 3.30% |
| Floating interest | - | - | - |
| Medium/long-term | | | |
| Fixed interest | 54,717 | - | 2.82% |
| Floating interest | - | - | - |
| **Total** | **216,995** | | |

| | December 31, 2012 | | |
|---|---|---|---|
| | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency |
| Short-term | | | |
| Fixed interest | 86,662 | 5.5% | 2%-4.73% |
| Floating interest | - | - | - |
| Medium/long-term | | | |
| Fixed interest | 45,833 | - | 2.69%-6.1% |
| Floating interest | - | - | - |
| **Total** | **132,495** | | |

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## 12. OTHER LIABILITIES AND PROVISIONS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Other liabilities** | | |
| Cheques clearance account | 32,187 | 47,096 |
| Blocked money | 19,086 | 7,643 |
| Taxes and duties payable | 8,637 | 6,463 |
| Blocked cheques and notes | 5,289 | 3,817 |
| Deferred revenue | 2,818 | 1,889 |
| Payables to government funds | 237 | 74 |
| Other | 3,965 | 2,329 |
| **Total** | **72,219** | **69,311** |
| **Provisions** | | |
| Employee termination benefits | 7,743 | 7,051 |
| Provision for bonus payments | 5,908 | 4,895 |
| Specific provisions provided for unindemnified non -cash loans | 3,931 | 1,813 |
| Provision for non-cash loans | 2,889 | 1,093 |
| Provision on lawsuits | 974 | 582 |
| **Total** | **21,445** | **15,434** |
| **Total** | **93,664** | **84,745** |

| | Specific provisions provided for unindemnified non cash loans | Provision for non-cash loans | Other Provisions |
|---|---|---|---|
| **December 31, 2012** | **1,813** | **1,093** | **5,477** |
| Charge for the year | 2,674 | 1,796 | 5,871 |
| Recoveries | (556) | - | - |
| Release from provision | - | - | **(4,466)** |
| **December 31, 2013** | **3,931** | **2,889** | **6,882** |

## 12. OTHER LIABILITIES AND PROVISIONS (continued)

**Employee Termination Benefits**

Bank has calculated the reserve for employee termination benefits by using actuarial valuation methods as set out in the IAS 19 and reflected this in the financial statements.

In accordance with IAS 19R " Employee Benefits"; total benefit is calculated for each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses amounting to TRY568 are recognized in the other comprehensive income statement..

Actuarial calculations are based on retirement pay liability rights that are defined in the Labour Law No. 1475, and based on employees' details as of valuation date. The assumptions used in the actuarial calculation are as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Discount rate for pension plan liabilities | 9.5% | 7,0% |
| Inflation | 6.3% | 4,8% |

Movements in the defined benefit obligations in the current period were as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Opening | 4,898 | 2,969 |
| Current service cost | 1,173 | 682 |
| Interest cost | 357 | 283 |
| Actuarial (gains)/ losses | (568) | 1,349 |
| Benefits paid | (546) | (385) |
| **Closing balance at period end** | **5,314** | **4,898** |

## 13. INCOME TAXES

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

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

The effective rates of tax are as follows: 20% in 2013 and 2012.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2013 (2012: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between the 1st to 25th of the fourth month following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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## 13. INCOME TAXES (continued)

**Income Withholding Tax:**

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

In the accompanying financial statements corporate tax and deferred tax asset/liability are comprised of the following:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current tax asset | 2,234 | - |

Statement of Financial Position:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Corporate taxes and funds | - | 1,403 |
| Deferred tax asset / (liability) (net) | 10,552 | 5,374 |

Income Statement:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current income tax from continuing operations | - | (9,454) |
| Deferred tax (benefit/charge) from continuing operations | (5,263) | 4,340 |
| | **(5,263)** | **5,114** |

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Current period tax payable | - | 9,454 |
| Prepaid tax | - | (8,051) |
| **Total** | **-** | **1,403** |

## 13. INCOME TAXES (continued)

Temporary differences and corresponding deferred taxes are as follows:

| | December31, 2013 Temporary Differences | December 31, 2013 Deferred Tax Asset/ (Liability) |
|---|---|---|
| Loan impairment provision | 15,388 | 3,078 |
| Tax losses | 11,753 | 2,351 |
| Financial assets | 10,056 | 2,011 |
| Retirement pay and unused vacation provision | 8,311 | 1,662 |
| Provisions (free provision) | 7,257 | 1,451 |
| Other | 2,737 | 547 |
| Useful life difference on premises and equipment and intangible assets | (2,742) | (548) |
| **Total** | **52,760** | **10,552** |

| | December 31, 2012 Temporary Differences | December 31, 2012 Deferred Tax Asset/ (Liability) |
|---|---|---|
| Loan impairment provision | 13,076 | 2,616 |
| Retirement pay and unused vacation provision | 7,051 | 1,411 |
| Provisions (free provision) | 6,078 | 1,216 |
| Tax Losses | 2,495 | 499 |
| Useful life difference on premises and equipment and intangible assets | (1,844) | (368) |
| **Total** | **26,856** | **5,374** |

Movement of deferred tax (asset) / liability:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Opening balance at 1 January | 5,374 | 4,986 |
| Current year charge / (benefit) | (5,263) | 4,340 |
| Subtotal | 111 | 9,326 |
| Deferred tax change/benefit under equity | 10,441 | (3,952) |
| **Closing balance at period end** | **10,552** | **5,374** |

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## 13. INCOME TAXES (continued)

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Profit before income tax** | **26,187** | **25,285** |
| Tax at the domestic income tax rate of 20% (2012: 20%) | (5,237) | (5,057) |
| Tax effect of non-deductable expenses, income that is deductible in determining taxable income and other adjustments, net | (26) | (57) |
| **Tax charge per income statement** | **(5,263)** | **(5,114)** |

## 14. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

| | December 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Fair value assets | Fair value liabilities | Notional amount in Turkish Lira equivalent (*) | Fair value assets | Fair value liabilities | Notional amount in Turkish Lira equivalent (*) |
| **Derivatives held-for-trading** | | | | | | |
| Currency swap contracts | 93 | 725 | 108,098 | 5 | 203 | 46,482 |
| Forwards | 53 | - | 2,706 | - | - | - |
| Options | 3 | 2 | 3,622 | - | - | - |
| **Total** | **149** | **727** | **114,426** | **5** | **203** | **46,482** |

(*) Represents the total of buy and sell notional amounts of foreign currency swap and forward transactions.

Forward foreign exchange and swap transactions are for protection from currency fluctuations. According to IAS 39, they do not qualify as hedging instruments but are classified as trading and remeasured at fair value.

## 15. SHARE CAPITAL

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Total number of shares, TRY 0.1 par value | 5,000 Million | 3,000 Million |
| **Total number of shares** | **5,000 Million** | **3,000 Million** |

## 15. SHARE CAPITAL (continued)

As of December 31, 2013 and 2012, the composition of shareholders and their respective % of ownership are summarized as follows:

| | December 31, 2013 | |
|---|---|---|
| | **Amount** | **%** |
| Arab Bank PLC | 141,667 | 28.3% |
| ARAB BANK (Switzerland) | 108,333 | 21.7% |
| Bankmed, SAL | 250,000 | 50.0% |
| Others | <1 | 0% |
| | 500,000 | 100% |
| Restatement effect | 33,398 | |
| **Total** | **533,398** | |

| | December 31, 2012 | |
|---|---|---|
| | **Amount** | **%** |
| Arab Bank PLC | 84,999 | 28.3% |
| ARAB BANK (Switzerland) | 65,000 | 21.7% |
| Bankmed, SAL | 149,999 | 50.0% |
| Others | <1 | 0% |
| | 300,000 | 100% |
| Restatement effect | 33,398 | |
| **Total** | **333,398** | |

## 16. RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement in legal reserves and retained earnings are as follows:

| | Restatement to Share Capital | Extraordinary Reserves | Other Reserves | Legal Reserves | Retained Earnings / (Accumulated Deficit) | Total |
|---|---|---|---|---|---|---|
| **At January 1, 2012** | 33,398 | - | 2,746 | 789 | **12,214** | 49,147 |
| Net profit for the year | - | - | - | - | 20,171 | 20,171 |
| Transfer to reserves (*) | - | - | - | 178 | (178) | - |
| **At December 31, 2012** | 33,398 | - | 2,746 | 967 | **32,207** | 69,318 |
| Net profit for the year | - | - | - | - | 20,925 | 20,925 |
| Transfer to reserves | - | - | 4,873 | 635 | (4,940) | 568 |
| **At December 31, 2013** | 33,398 | | 7,619 | 1,602 | **48,192** | 90,811 |

(*) The Bank has netted off its accumulated deficit and extraordinary reserves with the adjustment to share capital amounting to TL 114,766 as of December 31, 2012. Acturial gains and losses amount after January 1, 2013 are accounted under other reserve.

### Legal Reserves

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

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## 16. RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED (continued)

### Dividends Paid and Proposed

The Bank did not propose dividends subsequent to the reporting date. Profit appropriation will be resolved in the General Assembly meeting which has not yet been conducted as of the date the accompanying financial statements that are authorized for issue.

## 17. RELATED PARTIES

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, directly and indirectly owned subsidiaries; has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. Related parties also include individuals that are principal owners, management and members of the Bank's Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

***Transactions with key management personnel:***

Key management personnel comprise of the Bank's directors and key management executive officers.

The executive and non-executive members of Board of Directors and management received remuneration and fees are:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Salaries and short-term benefits | 9,381 | 6,162 |

| December 31, 2013 | Cash loans | Non-cash loans | Customers' deposits | Deposit with banks | Deposit from banks | Borrowings | Interest and commission income | Interest and commission expense |
|---|---|---|---|---|---|---|---|---|
| Direct and indirect shareholders of the Bank | - | 89 | - | 73 | 34,038 | 70,114 | 506 | 4,043 |
| Other entities included in the risk group | 23 | 14,273 | - | - | 476 | - | 51 | 29 |
| **TOTAL** | **23** | **14,362** | **-** | **73** | **34,514** | **70,114** | **557** | **4,072** |

| December 31, 2012 | Cash loans | Non-cash loans | Customers' deposits | Deposit with banks | Deposit from banks | Borrowings | Interest and commission income | Interest and commission expense |
|---|---|---|---|---|---|---|---|---|
| Direct and indirect shareholders of the Bank | - | 3,194 | - | 59 | 1,223 | 42,266 | 20 | 2,721 |
| Other entities included in the risk group | 6,954 | 4,376 | - | - | 289 | - | 734 | 1,102 |
| **TOTAL** | **6,954** | **7,570** | **-** | **59** | **1,512** | **42,266** | **754** | **3,823** |

## 18. INTEREST INCOME

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Loans and receivables | 236,396 | 229,596 |
| Securities | 41,649 | 28,956 |
| Deposits with banks and other financial institutions | 532 | 388 |
| Other interest income | 1,949 | 4,290 |
| **Total** | **280,526** | **263,230** |

## 19. INTEREST EXPENSES

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Customer deposits | (136,593) | (139,048) |
| Money market interest expenses | (16,305) | (6,946) |
| Funds borrowed and deposits from other banks | (6,790) | (7,726) |
| Other interest expenses | (472) | (8) |
| **Total** | **(160,160)** | **(153,728)** |

## 20. OTHER INCOME

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Gain on non-performing loan sales | 316 | - |
| Other, including release from provisions | 4,194 | 3,034 |
| **Total** | **4,510** | **3,034** |

## 21. FEES AND COMMISSIONS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Fees and commission income** | | |
| Fees and commissions from non-cash loans | 11,970 | 11,117 |
| Other | 11,678 | 11,631 |
| **Fees and commission expense** | | |
| Fees and commission expense on non-cash loans | (23) | (51) |
| Fees and commission expense on banks | (515) | (460) |
| Other | (830) | (442) |
| **Net Fees and Commissions** | **22,280** | **21,795** |

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## 22. TRADING INCOME

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| **Income** | | |
| Gains on capital market operations | 8,105 | 3,176 |
| Gains on derivative financial instruments | 12,819 | 1,379 |
| **Losses (-)** | | |
| Losses on capital market operations | (694) | (88) |
| Losses on derivative financial instruments | (11,965) | (2,877) |
| **Total** | **8,265** | **1,590** |

## 23. OPERATING EXPENSES

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Staff costs | (57,128) | (48,117) |
| Rent expenses | (10,125) | (8,975) |
| Depreciation and amortization | (8,208) | (5,061) |
| Other provisions | (5,529) | (4,980) |
| Vehicle expenses | (3,962) | (3,518) |
| Maintenance expenses | (3,177) | (1,290) |
| Taxes and duties | (3,076) | (2,454) |
| Communication expenses | (2,480) | (2,155) |
| Cleaning expenses | (2,438) | (1,747) |
| Premiums paid to saving deposit insurance fund | (1,762) | (1,134) |
| Assurance and financial services expenses | (1,700) | (1,526) |
| Computer usage expenses | (1,412) | (1,874) |
| Cost of entertainment | (1,360) | (832) |
| Expertise expenses | (1,319) | (825) |
| Heating lightening expenses | (1,151) | (1,046) |
| Provision for severance pay | (985) | (2,150) |
| Advertising expenses | (643) | (449) |
| Stationery expenses | (638) | (542) |
| Insurance expenses | (441) | (380) |
| Non-deductible expenses | (437) | (522) |
| Unused vacation payments | (275) | (221) |
| Other (*) | (13,485) | (4,484) |
| **Total** | **(121,731)** | **(94,282)** |

(*) According to the Board of Directors decision numbered 516/A and dated September 28, 2013, non-performing loans with a principal amount of TRY 12,032 are sold to an asset management company as of December 31,2013. Loss on sales on NPL's amount is TRY 11,717.

**Staff Costs**

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Wages and salaries | (52,748) | (44,222) |
| Other | (4,380) | (3,895) |
| **Total** | **(57,128)** | **(48,117)** |

## 24. COMMITMENTS AND CONTINGENCIES

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Letters of guarantee issued | 1,366,905 | 938,491 |
| Letters of credit | 160,697 | 52,105 |
| Acceptance credits | 7,824 | 5,372 |
| Other | 145,956 | 82,941 |
| Total non-cash loans | 1,681,382 | 1,078,909 |
| Other irrevocable commitments | 280,634 | 186,396 |
| **Total** | **1,962,016** | **1,265,305** |

As of December 31, 2013, forward marketable security purchase and sale commitments (included in other irrevocable commitments) amount to TRY 15,684 (December 31, 2012: TRY 41,073).

**Letters of Guarantee Given to Borsa Istanbul Stock Exchange (BIS)**

As of December 31, 2013, according to general requirements of the BIS, letters of guarantee amounting to USD 1 million (December 31, 2012: USD 1 million) had been obtained from various local banks and were provided to ISE for bond and stock market transactions.

**Litigation**

According to the legal department of the Bank; the total number of ongoing cases against the Bank is 39. The total amount of those cases consists of TRY 524, USD 1,604 Thousand and EURO 193 Thousand. There is a provision of TRY 974 in the accompanying financial statements for these cases (December 31, 2012: TRY 582).

## 25. FINANCIAL RISK MANAGEMENT

**Organization of the Risk Management Function**

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

The mission of Bank Risk Management function is to ensure together with executive management that risks taken by the Bank align with its policies and are compatible with its profitability and credit-rating objectives.

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

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## 25. FINANCIAL RISK MANAGEMENT (continued)

Limits for Credit Risk, Market Risk, Economic Capital, VAR and stop-loss limits for treasury positions are set by the Board of Directors. Economic capital calculations cover all types of risk classes; credit, market and operational risk. All limits are calculated and monitored by Risk Management Group and reported to senior management and Audit Committee.

**Operational Risk**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. As of December 31, 2013 amount subject to Operational Risk is TRY 198,065 by using the year end gross revenue of prior 3 years 2010, 2011 and 2012. (December 31, 2012: TRY 159,862)

**Credit Risk**

Credit risk is the risk that the Bank is a party in a contract whereby the counterparty fails to meet its obligation and causes to incur a financial loss.

The credit allocation is performed on a debtor and a debtor group basis within the limits and updated on a defined frequency based on market developments. In the credit allocation process, many financial and non-financial criteria are taken into account within the framework of the internal rating procedures of the Bank. These criteria include geographical and sector concentrations. The sector concentrations for loans are monitored closely. In accordance with the Bank's loan policy, the rating of the companies, credit limits and guarantees are considered together, and credit risks incurred are monitored.

Risks and limits related to treasury activities and customer based commercial activities are monitored daily. Moreover, the limits of the correspondent banks that are determined by their ratings and the control of the maximum acceptable risk level in relation to the equity of the Bank are monitored daily. Risk limits are determined in connection with these daily transactions, and risk concentration is monitored systematically concerning off-balance sheet operations.

The credit worthiness of the debtors of the loans and other receivables is monitored regularly as prescribed in the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves" issued by the Banking Regulation and Supervision Agency of Turkey (BRSA). Most of the statement of accounts for the loans has been tried to derive from audited financial statements. The unaudited documents result from the timing differences between the loan allocation and the audit dates of the financial statements of the companies and subsequently the audited financial statements are obtained from the companies when the companies are audited. Credit limits are determined according to the audited statement of accounts, and guarantee factors are developed in accordance with the decision of the credit committee considering the characteristics of the transactions and the financial structures of the companies.

Derivatives:

The Bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

## 25. FINANCIAL RISK MANAGEMENT (continued)

Credit-related commitments:

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances, other irrevocable commitments which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank monitors the maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The Bank sets out the following practices so as to minimize risk in credit-related commitments like in cash credits by

(i) establishing an appropriate credit risk environment;
(ii) operating under a sound credit-granting process;
(iii) maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk.

Fitch ratings are used in computation of risk weighted assets for central government and foreign banks. The equivalence of Fitch ratings to credit quality are as follows;

| | Credit Quality |
|---|---|
| 1 | AAA & AA- |
| 2 | A+ & A- |
| 3 | BBB+ & BBB- |
| 4 | BB+ & BB- |
| 5 | B+ & B- |
| 6 | CCC+ |

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## 25. FINANCIAL RISK MANAGEMENT (continued)

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

| **Gross Maximum Exposure** | **December 31, 2013** | **December 31,2012** |
|---|---|---|
| Central Bank | 367,156 | 267,040 |
| Due from banks | 286,397 | 97,526 |
| Due from Money market transactions | 70,015 | 152,025 |
| Financial assets held for trading | 116 | 182 |
| Derivative financial instruments | 149 | 5 |
| Financial assets available-for-sale | 505,738 | 278,875 |
| Held to maturity investment | 98,895 | 70,959 |
| Loans | 2,655,789 | 2,004,926 |
| **Total** | **3,984,255** | **2,871,538** |
| Contingent liabilities | 1,681,382 | 1,078,909 |
| Irrevocable commitments | 280,634 | 186,396 |
| **Total** | **1,962,016** | **1,265,305** |
| **Total credit risk exposure** | **5,946,271** | **4,136,843** |

Credit quality per class of financial assets as of December 31, 2013 and 2012 are as follows;

| **December 31, 2013** | **Neither past due nor impaired** | **Past due or individually impaired** | **Total** |
|---|---|---|---|
| Central Bank | 367,156 | - | 367,156 |
| Due from banks | 286,397 | - | 286,397 |
| Money market placements | 70,015 | - | 70,015 |
| Financial assets designated at fair value through profit or loss and derivative financial instruments | 265 | - | 265 |
| Loans and receivables | | | |
| *Corporate lending* | 1,759,561 | 129,326 | 1,888,887 |
| *Small business lending* | 701,461 | 56,166 | 757,627 |
| *Retail lending* | 6,877 | 2,398 | 9,275 |
| **Total** | **3,191,732** | **187,890** | **3,379,622** |
| Financial investments | | | |
| *Quoted – Government debt securities* | 604,712 | - | 604,712 |
| *Quoted – Other debt securities* | - | - | - |
| *Unquoted – Debt securities* | - | - | - |
| Total financial investments | 604,712 | - | 604,712 |
| **Grand Total** | **3,796,444** | **187,890** | **3,984,334** |

## 25. FINANCIAL RISK MANAGEMENT (continued)

| December 31, 2012 | Neither past due nor impaired | Past due or individually impaired | Total |
|---|---|---|---|
| Central Bank | 267.040 | - | 267.040 |
| Due from banks | 97.526 | - | 97.526 |
| Money market placements | 152.025 | - | 152.025 |
| Financial assets designated at fair value through profit or loss and derivative financial instruments | 187 | - | 187 |
| Loans and receivables | | | |
| *Corporate lending* | 1.394.070 | 103.198 | 1.497.268 |
| *Small business lending* | 446.762 | 48.095 | 494.857 |
| *Retail lending* | 10.721 | 2.080 | 12.801 |
| Total | 2.368.331 | 153.373 | 2,521,704 |
| Financial investments | | | |
| *Quoted – Government debt securities* | 349.834 | - | 349.834 |
| *Quoted – Other debt securities* | - | - | - |
| *Unquoted – Debt securities* | - | - | - |
| Total financial investments | 349.834 | - | 349.834 |
| **Grand Total** | **2.718.165** | **153.373** | **2.871.538** |

**Performing Loans:**

| | Internal/External Grades | Share of exposure % | December 31, 2013 | Share of exposure % | December 31, 2012 |
|---|---|---|---|---|---|
| High Grade | | | | | |
| *Risk rating class 1* | A+ Excellent | 0.61% | 15,973 | 0.53% | 10,501 |
| *Risk rating class 2* | A- Excellent | 04.00% | 105,295 | 5.39% | 107,026 |
| *Risk rating class 3* | B+ Very Good | 10.63% | 280,074 | 11.39% | 225,864 |
| *Risk rating class 4* | B- Very Good | 21.48% | 565,943 | 13.14% | 260,625 |
| Standard Grade | | | | | |
| *Risk rating class 5* | C+ Good | 18.24% | 480,645 | 15.97% | 316,798 |
| *Risk rating class 6* | C- Good | 22.91% | 603,686 | 24.36% | 483,323 |
| Sub Standard Grade | | | | | |
| *Risk rating class 7* | D+ Ordinary | 12.09% | 318,619 | 16.20% | 321,414 |
| *Risk rating class 8* | D- Ordinary | 3.41% | 89,740 | 7.59% | 150,591 |
| *Risk rating class 9* | E Poor | 1.62% | 42,704 | 3.01% | 59,699 |
| *Risk rating class 10* | F Very Poor | 0.17% | 4,467 | 1.09% | 21,554 |
| Unrated | | 4.84% | 127,644 | 1.33% | 26,434 |
| **Total** | | **100.00%** | **2,634,790** | **100.00** | **1,983,834** |

The Bank uses 3 main factors for internal credit rating system. These are financial data, non-financial data and specialist decisions. Financial data consist of liquidity, financial structure, profitability, growth ratios and turnover rate. Non financial data consist of loan client business, relation with finance sector and sector analysis. The Bank measures the credit rating of companies by making comparisons regarding the financial data and non financial-data.Total performing loans are gross which are pre-collective provisioned amounts.

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## 25. FINANCIAL RISK MANAGEMENT (continued)

**Credit Risk (continued)**

In the existing rating system, the collateral assigned to loans are not taken into account in the rating. The information about customers with F, E and D- rating is shown below.

**"F" rating;**

Number of clients with "F" rating is 9 with an outstanding risk of TRY 4,467 (December 31,2012 : TRY 21,554 ; 13 client). 4 of these clients are granted against mortgage with outstanding risk of TRY 2,774 and covers 62% of total risk (December 31,2012: 4 clients, 29%), one of these clients are granted against customer check with outstanding risk of TRY 847 and covers 19% of total risk (December 31,2012: 3 clients, 26%). Moreover, parent company of two clients, which have risk of TRY 200 , have ratings of C+ and above ( ratio is 4%).

**"E" rating;**

Number of clients with "E" rating is 31 and total outstanding risk is TRY 42,704TL (December 31,2012 : TRY 59,699; 47 clients).10 of these clients are granted against mortgage with outsanding risk of TRY 10,199 and covers 24% of total "E" Rating Risk (December 31,2012 : TRY 24,744 TL, %41). 12 of these clients are granted against Customer Check/Note with outstanding risk of TRY 2,700 and covers 6% of total "E" Rating Risk(December 31,2012 : TRY 9,394; 16%). Moreover, parent company of 8 clients, which have risk of TRY 18,100, have ratings of C- and above (ratio is 42%).

**"D-" rating;**

Number of clients with D- rating is 61 and total outstanding risk is TRY 89.740 (December 31, 2012 : TRY 150,591, 123 client). Clients granted against mortgage have outstanding risk of TRY 20,409 and covers 23% of total "D-" Rating Risk (December 31,2012 : TRY 39,988; 27%).

24 of these clients are granted against Customer check/note with outstanding risk of TRY 27,316 and covers 30% of total "D-" Rating Risk. (December 31,2012 : TRY 56,496, %38). 1 of these clients are granted against vehicle pledge with outstanding risk of TRY 1,556 and covers 2% of "D-" rating risk. Moreover, parent company of 5 clients, which have risk of TRY 11,706, have ratings of C- and above (ratio is 13%).

There is no financial assets at fair value through profit or loss whose terms have been renegotiated .

*Impairment assessment*

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### Credit Risk (continued)

*Individually assessed allowances*

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances and for held-to-maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date.

### Liquidity Risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely.

Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank's policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In this context, liquidity problem has not been faced in any period. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios, and monitors them.

According to the general policies of the Bank, the matching of the maturity and interest rate structure of assets, and liabilities is always established within the asset liability management strategies. A positive difference is tried to be established between the yields of TRY and foreign currency assets and liabilities on the statement of financial position and their costs. In this sense, various crisis scenarios which are prepared by risk management group are presented to management and audit committee.

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by deposits, and in addition to this source, it makes use of pre-financing to generate additional sources.

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## 25. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity Risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

| | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | Over 5 Years | Adjustments (*) | Total |
|---|---|---|---|---|---|---|---|
| **As of December 31, 2013** | | | | | | | |
| Bank Deposits | 11,870 | 32,454 | - | - | - | (97) | 44,227 |
| Other deposits | 2,018,917 | 545,399 | 248,631 | 2,187 | - | (22,224) | 2,792,910 |
| Obligations under repurchase agreements and money market borrowings | 395,176 | - | - | - | - | (91) | 395,085 |
| Funds borrowed | 39,141 | 35,950 | 143,358 | 2,430 | - | (3,884) | 216,995 |
| **Total** | **2,465,104** | **613,803** | **391,989** | **4,617** | **-** | **(26,296)** | **3,449,217** |
| **As of December 31, 2012** | | | | | | | |
| Bank Deposits | 22,178 | - | - | - | - | (23) | 22,155 |
| Other deposits | 1,261,500 | 755,738 | 125,460 | - | - | (15,540) | 2,127,158 |
| Obligations under repurchase agreements | 210,050 | - | - | - | - | (64) | 209,986 |
| Funds borrowed | 19,429 | 43,111 | 53,897 | 18,896 | - | (2,838) | 132,495 |
| **Total** | **1,513,157** | **798,849** | **179,357** | **18,896** | **-** | **(18,465)** | **2,491,794** |

*****Interest to be paid until maturity.*

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

| December 31, 2013 | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| **Trading Derivatives Instruments** | | | | | | |
| Foreign Exchange Derivatives | (582) | - | 2 | - | - | (580) |
| - Addition | 53,758 | 2,096 | 1,069 | - | - | 56,923 |
| - Disposal (-) | (54,340) | (2,096) | (1,067) | - | - | (57,503) |
| Interest Rate Derivatives | - | - | - | - | - | - |
| - Addition | - | - | - | - | - | - |
| - Disposal (-) | - | - | - | - | - | - |
| **Trading Derivatives Instruments** | | | | | | |
| Foreign Exchange Derivatives | - | - | - | - | - | - |
| - Addition | - | - | - | - | - | - |
| - Disposal (-) | - | - | - | - | - | - |
| Interest Rate Derivatives | - | - | - | - | - | - |
| - Addition | - | - | - | - | - | - |
| - Disposal (-) | - | - | - | - | - | - |
| **Total cash flow** | **53,758** | **2,096** | **1,069** | **-** | **-** | **56,923** |
| **Total cash inflow** | **(54,340)** | **(2,096)** | **(1,067)** | **-** | **-** | **(57,503)** |

| December 31, 2012 | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|
| **Trading Derivatives Instruments** | | | | | | |
| Foreign Exchange Derivatives | (198) | - | - | - | - | (198) |
| - Addition | 23,142 | - | - | - | - | 23,142 |
| - Disposal (-) | (23,340) | - | - | - | - | (23,340) |
| Interest Rate Derivatives | - | - | - | - | - | - |
| - Addition | - | - | - | - | - | - |
| - Disposal (-) | - | - | - | - | - | - |
| **Trading Derivatives Instruments** | | | | | | |
| Foreign Exchange Derivatives | - | - | - | - | - | - |
| - Addition | - | - | - | - | - | - |
| - Disposal (-) | - | - | - | - | - | - |
| Interest Rate Derivatives | - | - | - | - | - | - |
| - Addition | - | - | - | - | - | - |
| - Disposal (-) | - | - | - | - | - | - |
| **Total cash flow** | **23,142** | **-** | **-** | **-** | **-** | **23,142** |
| **Total cash inflow** | **(23,340)** | **-** | **-** | **-** | **-** | **(23,340)** |

(*) Presents forward and swap foreign currency transactions-buy notional amounts.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity Risk (continued)

Net liquidity gap:

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

**Presentation of assets and liabilities according to their remaining maturity:**

| | Demand | Up to 1 Month | 1 to 3 months | 3 months to 1 year | Over 1 year | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| As at December 31, 2013 | | | | | | | |
| Assets: | | | | | | | |
| Cash and due from banks | 30,865 | 278,786 | - | - | - | - | 309,651 |
| Money market placements | - | 70,015 | - | - | - | - | 70,015 |
| Balances with Central Bank(***) | 36,707 | 224,393 | 46,133 | 59,923 | - | - | 367,156 |
| Financial assets at fair value through profit or loss | - | - | 91 | - | 25 | - | 116 |
| Derivative financial instruments | - | - | 149 | - | - | - | 149 |
| Loans and receivables (*)(**) | 7 | 1,732,611 | 107,461 | 230,716 | 537,674 | - | 2,608,469 |
| Investment securities | - | - | 29,899 | 41,003 | 533,735 | 75 | 604,712 |
| Premises and equipment | - | - | - | - | - | 36,014 | 36,014 |
| Intangible assets | - | - | - | - | - | 20,674 | 20,674 |
| Deferred tax asset | - | - | - | - | - | 10,552 | 10,552 |
| Other assets | - | 16,499 | - | - | - | 57,468 | 73,967 |
| **Total Assets** | 67,579 | 2,322,304 | 183,733 | 331,642 | 1,071,434 | 124,783 | 4,101,475 |
| Liabilities: | | | | | | | |
| Customers' deposits | 162,416 | 1,849,606 | 538,142 | 240,775 | 1,971 | - | 2,792,910 |
| Deposits from banks | 1,866 | 10,002 | 32,359 | - | - | - | 44,227 |
| Obligations under repurchase agreements | - | 395,085 | - | - | - | - | 395,085 |
| Derivative financial instruments | - | 727 | - | - | - | - | 727 |
| Funds borrowed | - | 38,989 | 35,617 | 140,070 | 2,319 | - | 216,995 |
| Other liabilities and provisions | - | 72,476 | 466 | - | - | 578,589 | 651,531 |
| **Total Liabilities** | 164,282 | 2,366,885 | 606,584 | 380,845 | 4,290 | 578,589 | 4,101,475 |
| **Net liquidity gap** | (96,703) | (44,591) | (422,851) | (49,203) | 1.067.144 | (453,796) | - |
| As at December 31,2012 | | | | | | | |
| Total assets | 111,888 | 1,851,398 | 176,337 | 237,513 | 497,432 | 81,719 | 2,956,287 |
| Total liabilities | 168,284 | 1,403,150 | 791,454 | 172,755 | 17,924 | 402,720 | 2,956,287 |
| **Net liquidity gap** | (56,396) | 448,248 | (615,117) | 64,758 | 479,508 | (321,001) | - |

(*) Revolving loans are presented in up to 1 month column.
(**) Collective allowances are proportionally distributed according to the maturity distribution of loans and receivables
(***) Reserve requirement distribution is based on maturity distribution of liabilities on which the reserve is calculated.

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## 25. FINANCIAL RISK MANAGEMENT (continued)

### Market Risk

The Bank has established market risk management operations and taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" which was published in the Official Gazette on June 28, 2012 numbered 28337and "Regulation Regarding Banks' Shareholders' Equity".

The Board of Directors determines the limits for the basic risk that the Bank is exposed to. Those limits are revised periodically in line with the market forces and strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management division and senior management has taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Interest rate and exchange rate risks, arising from the volatility in the financial markets are measured, and in the computation of capital adequacy, the amount subject to VAR calculated by using the standardized method (summarized below) is taken into consideration. Beside the standardized method, market risk (VAR) is calculated by using internal model as supported by scenario analysis and stress tests. VAR is calculated weekly by two different methods which are historic simulation, parametric method, and these results are also reported daily to the management.

### VaR Analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate daily risk numbers include the historical and variance covariance approaches.

While VaR captures the Bank's exposure under normal market conditions, sensitivity and scenario analysis, and in particular stress testing, is used to add insight to the possible outcomes under abnormal market conditions. The Bank assesses various stress scenarios to measure the impact on portfolio values of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, and consequently reflects the decline in liquidity that frequently accompanies market shocks.

VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### Currency Risk

Foreign currency risk indicates the probability of loss that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standardized method.

The Board of Directors sets limits for the positions, which are followed up daily. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

As an element of the Bank's risk management strategies, foreign currency liabilities are economically hedged against exchange rate risk by derivative instruments.

The carrying amount of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

| | EURO | USD | Other FC | Total |
|---|---|---|---|---|
| **As of December 31, 2013** | | | | |
| Assets | | | | |
| Cash and due from banks | 8,404 | 313,963 | 28,821 | 351,188 |
| Balances with Central Bank | 85,024 | 117,303 | - | 202,327 |
| Loans and advances (*) | 354,342 | 502,320 | 1,348 | 858,010 |
| Investment securities | - | 2 | - | 2 |
| Other assets | 7 | 28 | - | 35 |
| **Total assets** | **447,777** | **933,616** | **30,169** | **1,411,562** |
| **Liabilities:** | | | | |
| Deposits from banks | 22 | 32,778 | 842 | 33,642 |
| Customers' deposits | 250,195 | 903,260 | 558 | 1,154,013 |
| Funds borrowed | 164,777 | 23,674 | 1,345 | 189,796 |
| Other liabilities and provisions | 4,232 | 4,308 | - | 8,540 |
| **Total Liabilities** | **419,226** | **964,020** | **2,745** | **1,385,991** |
| Net position on statement of financial position | 28,551 | (30,404) | 27,424 | 25,571 |
| Net position off statement of financial position | (30,221) | 28,299 | (25,896) | (27,818) |
| Derivative financial assets and forward marketable security and spot currency purchase agreements | 1,630 | 33,822 | - | 35,452 |
| Derivative financial liabilities and forward marketable security and spot currency sale agreements | (31,851) | (5,523) | (25,896) | (63,270) |
| **As of December 31, 2012** | | | | |
| Total assets | 302,294 | 587,022 | 1,388 | 890,704 |
| Total liabilities | 27,159 | (31,944) | 755 | (4,030) |
| Net position on statement of financial position | (27,584) | 31,924 | - | 4,340 |
| Net position off statement of financial position | 4,715 | 37,793 | - | 42,508 |
| Derivative financial assets and forward marketable security purchase agreement | (32,299) | (5,869) | - | (38,168) |
| Derivative financial liabilities and forward marketable security sale agreement | (4,522) | (11,638) | (293) | (16,453) |

(*) Foreign currency indexed loans amounting to TRY 395,575 (December 31, 2012: TRY 327,555) are included in the loan portfolio.

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## 25. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency sensitivity

The Bank holds EUR and USD currencies positions mainly.

The following table details the Bank's sensitivity to a 10% increase or decrease in the TRY against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. Positive/ (negative) number indicates a change in profit or loss and other equity where USD and EUR increase/ decrease 10% against TRY.

| | Change in currency rate in % | Effect on profit or loss | | Effect on equity | |
|---|---|---|---|---|---|
| | | December 31, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| USD | %10 increase | (211) | (2) | - | - |
| EUR | %10 increase | (167) | (42) | - | - |
| OTHER | %10 increase | (5,332) | - | | |
| USD | %10 decrease | 211 | 2 | - | - |
| EUR | %10 decrease | 167 | 42 | - | - |
| OTHER | %10 decrease | 5,332 | - | | |

### Interest Rate Risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk for capital adequacy.

Risk Management Department performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reports to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank does not permit maturity mismatches or imposes limits on mismatch, a significant interest rate risk exposure is not expected.

## 25. FINANCIAL RISK MANAGEMENT (continued)

**Information related to the interest rate sensitivity of assets, and liabilities:**

| | Up to 1 Month | 1 to 3 months | 3 months to 1 year | Over 1 year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **As at December 31, 2013** | | | | | | |
| Assets: | | | | | | |
| Cash and due from banks | 278,786 | - | - | - | 30,865 | 309,651 |
| Money market placements | 70,015 | - | - | - | - | 70,015 |
| Balances with Central Bank | - | - | - | - | 367,156 | 367,156 |
| Financial assets at fair value through profit or loss | - | 91 | - | 25 | - | 116 |
| Derivative financial instruments | - | 149 | - | - | - | 149 |
| Loans and receivables (*)(**) | 1,732,611 | 107,461 | 230,716 | 537,674 | 7 | 2,608,469 |
| Investment securities | 122,595 | 94,548 | 153,627 | 233,863 | 79 | 604,712 |
| Premises and equipment | - | - | - | - | 36,014 | 36,014 |
| Intangible assets | - | - | - | - | 20,674 | 20,674 |
| Deferred tax asset | - | - | - | - | 10,552 | 10,552 |
| Other assets | - | - | - | - | 73,967 | 73,967 |
| **Total Assets** | **2,204,007** | **202,249** | **384,443** | **771,562** | **539,324** | **4,101,475** |
| Liabilities: | | | | | | |
| Customers' deposits | 1,849,606 | 538,142 | 240,775 | 1,971 | 162,416 | 2,792,910 |
| Deposits from banks | 10,002 | 32,359 | - | - | 1,866 | 44,227 |
| Obligations under repurchase agreements | 395,085 | - | - | - | - | 395,085 |
| Derivative financial instruments | 727 | - | - | - | - | 727 |
| Funds borrowed | 38,989 | 35,617 | 140,070 | 2,319 | - | 216,995 |
| Other liabilities and provisions | 451 | 466 | - | - | 650,614 | 651,531 |
| **Total Liabilities and equity** | **2,294,860** | **606,584** | **380,845** | **4,290** | **814,896** | **4,101,475** |
| **Total interest sensitivity gap** | **(90,863)** | **(404,335)** | **3,498** | **767,272** | **275,572** | **-** |
| **Total Assets December 31, 2012** | 1,789,766 | 143,323 | 346,668 | 276,932 | 399,598 | 2,956,287 |
| **Total Liabilities and equity December 31, 2012** | 1,342,533 | 791,454 | 172,755 | 17,924 | 631,621 | 2,956,287 |
| **Total interest sensitivity gap** | 447,233 | (648,131) | 173,913 | 259,008 | (232,023) | - |

(*) Revolving loans are presented in up to 1 month column.

(**) Collective allowances are proportionally distributed according to the maturity distribution of loans and receivables

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## 25. FINANCIAL RISK MANAGEMENT (continued)

**Interest Rate Risk (continued)**

**Interest Rate Sensitivity**

If interest rates had been increased by 0.5% in TRY and by 0.5% in FC and all other variables were held constant, the Bank's:

- Net profit would decrease by TRY 1,457. The main reason of this is the change in TRY and FC deposits (December 31, 2012: TRY 448 decrease).
- There is no effect on the Bank's equity.

**Capital Adequacy**

To monitor the adequacy of its capital, the Bank uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2013, the regulatory capital adequacy ratio of the Bank on an unconsolidated basis is above 12%.

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Tier I capital | 550,409 | 354,220 |
| Tier II capital | (2,576) | 25,965 |
| Deductions | (4) | (57) |
| Total regulatory capital | 547,829 | 380,128 |
| Risk-weighted assets (including market and operational risk) | 3,455,913 | 2,503,375 |
| Capital adequacy ratio (%) | 15,85 | 15,18 |

## 25. FINANCIAL RISK MANAGEMENT (continued)

### Fair Values

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

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | December 31, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| **Financial assets** | **3,616,834** | **2,325,436** | **3,582,999** | **2,593,413** |
| Money market placements and funds lent under resale agreements | 70,015 | 152,025 | 70,015 | 152,025 |
| Deposits with banks | 286,397 | 97,526 | 286,397 | 97,526 |
| Available-for-sale financial assets (*) | 505,738 | 278,950 | 505,738 | 278,950 |
| Loans and receivables | 2,655,789 | 2,004,926 | 2,623,641 | 1,993,157 |
| Held-to-maturity investments | 98,895 | 70,959 | 97,208 | 71,755 |
| **Financial liabilities** | **3,449,217** | **2,491,794** | **3,449,821** | **2,492,531** |
| Customers' deposits | 44,227 | 22,155 | 44,227 | 22,155 |
| Deposits from banks | 2,792,910 | 2,127,158 | 2,793,189 | 2,127,555 |
| Funds borrowed | 216,995 | 132,495 | 217,320 | 132,835 |
| Obligations under repurchase agreements | 395,085 | 209,986 | 395,085 | 209,986 |

(*) Equity instruments amounted to TRY 79 are excluded from the line.

### Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of the financial instruments:

**i. Financial assets:**

Money market placements and banks are carried at amortized cost values on the face of the financial statements and due to their short term nature, their fair values are considered to approximate their respective carrying values at amortized cost. The discount rate used to calculate the fair value of held- to- maturity investments and loans and receivables as of December 31, 2013 is the market rates available for the related loan and security types.

**ii. Financial liabilities:**

The fair value of bank deposits are considered to approximate their respective carrying values at amortized cost due to their short term nature. The discount rate used to calculate the fair value of other deposits and funds borrowed as of December 31, 2013 is the market rates available for the related borrowing and deposits types.

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

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

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

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

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## 25. FINANCIAL RISK MANAGEMENT (continued)

### Fair Value of Financial Instruments (continued)

| December 31, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Financial assets designated at fair value through profit or loss | 116 | | - | 116 |
| *Quoted Debt instruments* | 116 | - | - | 116 |
| Derivative financial instruments | - | 149 | - | 149 |
| *FX forwards, swaps, put, call options* | - | 149 | - | 149 |
| Available-for-sale financial assets | 505,738 | - | - | 505,738 |
| *Quoted Debt instruments* | 505,738 | - | | 505,738 |
| **Assets for which fair values are disclosed** | | | | |
| Loans and receivables | - | 2,623,641 | - | 2,623,641 |
| *Corporate* | - | 763,663 | - | 763,663 |
| *SME* | - | 1,848,765 | - | 1,848,765 |
| *Retail* | - | 11,214 | - | 11,214 |
| **Liabilities for which fair values are disclosed** | - | - | - | - |
| Deposits | - | (2,663,041) | - | (2,663,041) |
| *Bank deposits* | - | (32,268) | - | (32,268) |
| *Saving* | - | (1,603,383) | - | (1,603,383) |
| *Commercial and other* | - | (1,027,390) | - | (1,027,390) |
| **Derivative financial liabilities held for trading** | - | (727) | - | (727) |

| December 31, 2012 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Financial assets at fair value through profit and loss | 182 | 5 | - | 187 |
| *Debt instruments* | 182 | - | - | 187 |
| Derivative financial instruments | - | 5 | - | - |
| Available-for-sale financial assets | 278,875 | - | - | 278,875 |
| *Debt instruments* | 278,875 | - | - | 278,875 |
| **Financial Liabilities** | | | | |
| Deposits | - | - | - | - |
| Funds Borrowed From Other Financial Institutions | - | - | - | - |
| Marketable Securities Issued | - | - | - | - |
| **Derivative financial liabilities held for trading** | **-** | **(203)** | **-** | **(203)** |

Fair value of all Bank contracted derivatives is defined as level 2. These are mainly swaps and FX derivatives which are valued using discounted cashflow or present value calculation method. In all cases pricing is based on market observable inputs. Debt securities are priced in accordance to market quotes, therefore defined as level 1.

There is no transfer between level 1 and level 2 as of December 31,2013.(December 31,2012 : None)

## 26. SUBSEQUENT EVENTS

Bank's foreign and local currency type credit notes has been assessed from "BBB-" to "BB", foreign and local currency type short term notes has been assessed from "F3" to "B", long term credit note from "AAA(tur)" to "AA(tur), supporting note has been assessed from "2" to "3" by Fitch Rating agency as of January 9, 2014. Bank's notes removed from "Negative", but assessment for long term notes declared as "Negative". Fitch Ratings has downgraded Bank's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BB' from 'BBB-', short-term foreign and local currency IDRs to 'B' from 'F3', National Long-term rating to 'AA-(tur)' from 'AAA(tur)' and Support Rating to '3' from '2' and removed them from Rating Watch Negative (RWN). The Outlook on the Long-term IDRs and National Long-term rating is Negative. The Bank's Viability Rating (VR) is unaffected by these actions.

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