TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

FINANCIAL STATEMENTS
AT 31 DECEMBER 2012
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Türkiye İhracat Kredi Bankası A.Ş.

1. We have audited the accompanying financial statements of Türkiye İhracat Kredi Bankası A.Ş. ("the Bank") which comprise the balance sheet as of 31 December 2012 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

3. Our responsibility is to express an opinion on these 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.

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

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

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

Haluk Yalçın, SMMM
Partner

Istanbul, 15 February 2013

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

FINANCIAL STATEMENTS
AT 31 DECEMBER 2012

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

BALANCE SHEET AT 31 DECEMBER 2012

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	2012	2011
ASSETS			
Cash and due from banks	5	1,215,551	667,369
Trading securities	6	483,571	342,935
Derivative financial instruments	7	27,781	15,895
Loans and advances to customers	8	13,163,158	7,997,214
Investment securities			
- Available-for-sale	9	19,220	11,295
- Held-to-maturity	9	300,349	511,436
Property and equipment	10	19,375	9,693
Intangible assets	11	460	569
Other assets	12	42,221	26,738
Total assets		**15,271,686**	**9,583,144**
LIABILITIES			
Funds borrowed	13	9,108,492	4,669,760
Debt securities in issue	13	2,238,610	960,419
Interbank money market deposits	13	10,006	157,988
Other liabilities	15	196,915	112,040
Derivative financial instruments	7	29,058	23,317
Retirement benefit obligations	16	12,440	11,560
Total liabilities		**11,595,521**	**5,935,084**
EQUITY			
- Share capital	17	2,000,000	2,000,000
- Adjustment to share capital	17	812,518	812,518
Total paid in share capital		2,812,518	2,812,518
Other reserves		10,282	3,630
Retained earnings	18	853,365	831,912
Total equity		**3,676,165**	**3,648,060**
Total liabilities and equity		**15,271,686**	**9,583,144**

The financial statements as at and for the year ended 31 December 2012 have been approved for issue by the Board of Directors on 15 February 2013 and signed on behalf of the Bank by Necati Yeniaras, the Assistant General Manager of Coordination and; by Muhittin Akbaş, the Head of Accounting and Reporting of the Bank.

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

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	1 January - 31 December 2012	1 January - 31 December 2011
Interest income	19	573,737	313,359
Interest expense	19	(178,037)	(48,869)
Net interest income		**395,700**	**264,490**
Fee and commission income		4,968	5,866
Fee and commission expense		(6,150)	(6,081)
Net fee and commission expense		**(1,182)**	**(215)**
Impairment charges on loans	8	(60,787)	(18,413)
Foreign exchange gains, net		(76,266)	162,498
Losses on financial instruments classified as held for trading, net		17,285	(124,230)
Other operating income	20	58,270	53,403
Operating profit before operating expenses		**333,020**	**337,533**
Operating expenses	21	(111,831)	(107,255)
Net profit for the year		**221,189**	**230,278**

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

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	1 January - 31 December 2012	1 January - 31 December 2011
Net profit for the year	**221,189**	**230,278**
Other comprehensive income		
Change in fair value of available-for-sale financial assets	6,714	(4,907)
Amortisation of the fair value gains of held to maturity investments previously classified as available-for-sale financial assets	(62)	(45)
Total comprehensive income for the year	**227,841**	**225,326**

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

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	2012	2011
Cash flows from operating activities:			
Net profit for the year		221,189	230,278
Adjustments for:			
Depreciation and amortisation	21	933	1,027
Provision for loan losses	8	60,787	18,413
Provision for employment termination benefits	16	880	704
Provision for unused vacation	15	3,263	1,968
Remeasurement of derivative financial instruments at fair value		(6,146)	(15,857)
Interest income, net		(395,700)	(264,490)
Interest paid		(164,277)	(45,890)
Interest received		562,061	294,420
Other non-cash items		3,862	(10,938)
Operating profit before changes in operating assets and liabilities		**286,852**	**209,635**
Net decrease in due from banks		456	26,300
Net (increase) in loans and advances to customers		(5,165,396)	(3,893,100)
Net (increase) in trading securities		(140,636)	(34,447)
Net (increase) in other assets		(14,256)	(15,990)
Net increase/ (decrease) in other liabilities		80,930	(656,439)
Net cash (used in) operating activities		**(4,952,050)**	**(4,364,041)**
Cash flows from investing activities:			
Purchases of property and equipment, net	10, 11	(11,733)	(2,795)
Purchases/disposal of available-for-sale financial assets, net		2,453	(2,716)
Purchases of investment securities	9	(92,167)	(242,578)
Redemption of investment securities	9	287,169	639,199
Net cash from investing activities		**185,722**	**391,110**
Cash flows from/ (used in) financing activities:			
Proceeds from borrowings		30,368,526	7,870,402
Repayment of borrowings		(25,942,989)	(4,999,354)
Proceeds from interbank money market deposit		(147,982)	157,988
Proceeds from issuance of debt securities		1,278,191	960,419
Dividends paid		(199,735)	(207,408)
Net cash from financing activities		**5,356,011**	**3,782,047**
Effects of exchange-rate changes on cash and cash equivalents		**(42,039)**	**(2,674)**
Net increase/ (decrease) in cash and cash equivalents		**547,644**	**(193,558)**
Cash and cash equivalents at the beginning of the year		**666,913**	**860,471**
Cash and cash equivalents at the end of the year	**5**	**1,214,557**	**666,913**

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

TÜRKİYE İHRACAT KREDİ BANKASI A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Share capital					
	Share capital	**Adjustment to share capital**	**Total paid-in capital**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2011	**2,000,000**	**812,518**	**2,812,518**	**8,582**	**809,042**	**3,630,142**
Other comprehensive income for the year	-	-	-	(4,952)	-	(4,952)
Profit for the year	-	-	-	-	230,278	230,278
Total comprehensive income	**-**	**-**	**-**	**(4,952)**	**230,278**	**225,326**
Dividends paid	-	-	-	-	(207,408)	(207,408)
Balance at 31 December 2011	**2,000,000**	**812,518**	**2,812,518**	**3,630**	**831,912**	**3,648,060**
Balance at 1 January 2012	**2,000,000**	**812,518**	**2,812,518**	**3,630**	**831,912**	**3,648,060**
Other comprehensive income for the year	-	-	-	6,652	-	6,652
Profit for the year	-	-	-	-	221,189	221,189
Total comprehensive income	**-**	**-**	**-**	**6,652**	**221,189**	**227,841**
Dividends paid	-	-	-	-	(199,736)	(199,736)
Balance at 31 December 2012	**2,000,000**	**812,518**	**2,812,518**	**10,282**	**853,365**	**3,676,165**

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

NOTE 1 - GENERAL INFORMATION

Türkiye İhracat Kredi Bankası A.Ş. ("the Bank" or "Eximbank") was established as Turkey's "Official Export Credit Agency" on 25 March 1987 (transformed from "State Investment Bank") as a development and investment bank and accordingly, the Bank does not accept deposits. The Bank's head office is located at Saray Mahallesi, Üntel Sokak 19 Ümraniye, İstanbul/Turkey. As of 31 December 2012, the Bank has 2 branches in Ankara and Izmir and 7 liaison offices in Bursa, Adana, Trabzon, Denizli, Kayseri, Gaziantep and Konya. As of 31 December 2012, the Bank employed 453 people (2011: 397 people).

The Bank has been mandated to support foreign trade through diversification of the exported goods and services, by increasing the share of exporters and entrepreneurs in international trade, and to create new markets for the exported commodities, to provide exporters and overseas contractors with support to increase their competitiveness and to ensure a lower risk environment in international markets.

As a means of aiding export development services, the Bank provides loan, guarantee and insurance services in order to financially support export and foreign currency earning services. While performing the above mentioned operations, the Bank provides short, medium or long term, domestic and foreign currency lending funded by borrowings from domestic and foreign money and capital markets and from its own sources.

On the other hand, the Bank also performs fund management (treasury) operations related to its core banking operations. These operations are domestic and foreign currency capital market operations, domestic and foreign currency money market operations, foreign currency market operations, derivative transactions, all of which are approved by the Board of Directors.

The losses due to the political risks arising on loan, guarantee and insurance operations of the Bank, are transferred to the Undersecretariat of Treasury ("Turkish Treasury") according to article 4/c of Act number 3332 that was appended by Act number 3659 and according to Act regarding the Public Financing and Debt Management, number 4749, dated 28 March 2002.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies are consistently applied to all periods presented unless otherwise stated.

(a) Basis of presentation of financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Standards Interpretation Committee ("IFRSIC").

The Bank maintains its books of accounts and prepares its statutory financial statements in Turkish Lira in accordance with the Banking Law and in accordance with the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No.2663 dated 1 November 2006, which refers to Turkish Accounting Standards ("TAS") and Turkish Financial Reporting Standards ("TFRS") issued by the Turkish Accounting Standards Board ("TASB") and additional explanations and notes related to them and the accounting principles promulgated by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code and Tax Regulations. These financial statements are based on the historical cost convention and adjusted as necessary in order to comply with IFRS issued by the IASB.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, amendments and interpretations effective on or after 1 January 2012

Standards, amendments and interpretations effective on or after 1 January 2012 and not relevant to financial statements of the Bank;

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

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

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

Standards, amendments and interpretations to existing standards issued but not yet effective for the financial year beginning 1 January 2012 and have not been early adopted

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

IFRS 10, 11 and 12 on transition guidance (amendment), is effective for annual periods beginning on or after 1 January 2013. The amendment also provide additional transition relief in IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosure related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for the periods before IFRS 12 is applied.

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

IFRS 10, (amendment) "Consolidated Financial Statements", IFRS 12 and IAS 27 for investment entities is effective for annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an "investment entity" definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

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

(b) Accounting for the effect of hyperinflation

Prior to 1 January 2006, the adjustments and reclassifications made to the statutory records for the purpose of fair presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of the Turkish Lira in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of Turkey indicate that hyperinflation has ceased, effective from 1 January 2006, the Bank no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2005 are treated as the basis for the carrying amounts in these financial statements.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Derivative financial instruments

Derivative financial instruments, including currency and interest rate swap instruments, are initially recognised in the balance sheet at their fair value evidenced by their cost and are subsequently remeasured at their fair value. All derivative financial instruments are classified as held for trading. Derivative financial instruments, while providing effective economic hedges under the Bank's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39 "Financial Instruments: Recognition and Measurement", and are therefore treated as derivatives held for trading with fair value gains and losses reported in income. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Fair value of over-the-counter ("OTC") forward or swap foreign exchange contracts is determined based on the comparison of the original forward rate with the market interest rates. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(d) Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the investment securities.

Available-for-sale investment debt and equity securities are subsequently remeasured at fair value based on quoted bid prices, or amounts derived from discounted cash flow models. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income, unless there is objective evidence that the asset is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are transferred from other comprehensive income to the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. Dividends receivable is included separately in dividend income when a dividend is declared and inflow of economic benefit is probable.

All purchases and sales of investment securities that require delivery with the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the settlement date, which is the date that the asset is delivered to/from the Bank.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit making exists. These are initially recognised at fair value; transaction costs are taken directly to the income statement and subsequently they are re-measured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. All related realized and unrealized gains and losses are included in net trading income. Dividends received are included in dividend income.

All regular way purchases and sales of trading financial assets are recognised at the settlement date.

(f) Income and expense recognition

Income and expenses are recognised on an accrual basis.

Fee and commission income

Commission income and fees for certain banking services such as import and export related services and issuance of letters of guarantee are recorded as income overtime as the service is provided. Fees received for guarantees are recognized over the guaranteed period.

Dividend income

Dividends are recognized in the income statement in "Dividend income" when the entity's right to receive payment is established.

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price until, in management's judgment, collection becomes doubtful. Interest income includes coupons earned on fixed income securities and accrued discount on treasury bills.

Premium income and expense

Insurance programs of the Bank are composed of two schemes: short-term export credit insurance and medium- and long-term export credit insurance. Premium income of the Bank under these two schemes represents premiums on policies written during the year, net of cancellations.

In addition, since commencement of the insurance facility, the Bank has sought to reinsure the major portion (currently 70%) of its underwritten short-term commercial risks on the basis of a quota-share treaty concluded with a group of domestic and overseas reinsurance companies. Accordingly, expenses include the premiums paid to reinsurance companies.

Premium income and expense representing reinsurer's share of the premium are recognized in the financial statements on accrual basis over the period of related policy.

Reinsurance commissions

Reinsurance commission income received in relation to ceded premiums is recognized on an accrual basis.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Loans and advances to customers, provision for loan impairment and cash guarantees

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as loans originated by the Bank and are carried at amortized cost, net of any provision for impairment losses. All originated loans are recognised when cash is advanced to borrowers. Cash guarantees received for loans and advances given are recorded under "other liabilities" upon receipt and repaid back to the borrower on the maturity date when the Bank collects all amounts due.

A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the original effective interest rate. The level of the provision is also based on applicable banking regulations. An additional provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

The provision made during the year is charged against the income for the year. Loans that cannot be recovered are written off against the allowance for impairment losses. Such loans are written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for impairment losses for the year (Note 8).

(h) Financial liabilities

Financial liabilities, including funds borrowed from banks, debt securities in issue and interbank money market deposits received are recognized initially at fair value net of transaction costs that are directly attributable to the issue of the financial liability. Subsequently, financial liabilities are stated at amortised cost and any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the financial liability using the effective yield method.

(i) Foreign exchange transactions

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(j) Property and equipment

All property and equipment are carried at historical cost less accumulated depreciation. For purchases before 31 December 2005, they are restated to the equivalent purchasing power at 31 December 2005. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	50 years
Equipment and vehicles	4 - 16 years

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognized in income.

Subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are changed to other operating expenses during the financial period in which they are incurred.

(k) Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (not exceeding a period of five years). These assets are accounted for as intangible assets in these financial statements.

(l) Taxation on income

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3rd Article of Act number 3659, the above mentioned exemption became valid from 1 January 1988. Accordingly, deferred tax is not calculated and reflected to these financial statements.

(m) Employee benefits

(i) Provision for employment termination benefits

Provision for employment termination benefits ("ETB") is recognized in these financial statements as they are earned using the Projected Unit Credit Method. The total provision represents the present value of the estimated total reserve for the future probable obligation of the Bank arising from the retirement of the employees, calculated in accordance with the Turkish Labor Law (Note 16). Actuarial gains and losses are recognized immediately in the statement of income.

(ii) Bonus plans

The Bank recognizes a liability and an expense for employee bonuses based on a formula that takes into consideration the performance of the employees. The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(n) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank, in relation to its insurance business, accounts for outstanding claim provision for ultimate cost of the claims incurred, but not paid in the current or previous periods or, for the estimated ultimate cost if the cost is not certain yet, and for the incurred but not reported claims in addition to provisions calculated by taking into account the historical loss experience on insurance contracts. At each reporting period liability adequacy tests are also performed to ensure the adequacy of the contract liabilities.

(o) Offsetting

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

(p) Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as loans and advances; specific provisions are therefore established for other credit related commitments when losses are considered probable and recorded as other liabilities (Note 22).

(q) Reporting of cash flows

For the purposes of cash flow statement, cash and cash equivalents include cash, due from banks, trading securities and investment securities with original maturity periods of less than three months (Note 5).

(r) Related parties

For the purpose of these financial statements the shareholders of the Bank together with state-controlled entities in Turkey and the Bank's key management personnel are considered and referred to as related parties (Note 24).

(s) Comparatives

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

As of 31 December 2012, the loan portfolio of the Bank constitutes 86% (2011: 83%) of total assets. In short, medium and long term lending (except for fund sourced and country loans), the Bank is taking the risk of the Turkish banking system, however medium-to-long term country loans are under the political risk guarantee of the Turkish Treasury.

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The Board of Directors of the Bank sets risk limits and parameters for the transactions having significant implications for the operations of the Bank.

The objective of the Bank's asset and liability management and use of financial instruments is to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy.

(b) Credit risk

According to article numbered 25 of the decree (regulating the "Articles of Association" of the Bank) of the Council of Ministers dated 17 June 1987; the scope of the annual operations of the Bank is determined by the Bank's Annual Program that is approved by Supreme Advisory and Credit Guidance Committee ("SCLGC"). SCLGC is chaired by the Prime Minister or State Minister appointed by the Prime Minister and includes executive managers. The Board of Directors of the Bank is authorized to allocate the risk limits of loan, guarantee and insurance premium to country, sector and commodity groups, within the principles set by the Annual Program.

In accordance with the collateralisation policy of the Bank, the Bank is taking the risks of short term loans to domestic banks. The cash and non-cash limits of domestic banks for short term and medium and long term credits are approved by the Board of Directors.

Board of Directors fulfilled authorisations for the determination of loan limits for a person or legal entity, limited with only the loans which were given with respect to specified guaranties, within the framework of the 5th item in the Regulation related with Loan Transactions.

The risk limits of the foreign country loans are determined by annual programs which are approved by SCLGC within the foreign economic policy.

Country loans are granted with the approval of the Board of Directors and the approval of the Minister and the Council of Ministers; according to article 10 of Act number 4749 dated 28 March 2002 related to the regulation of Public Finance and Debt Management.

The fundamental collateral of the foreign country loans are the government guarantee of the counter country and the guarantee of banks that the Bank accepts as accredited.

The limit of a country is restricted by both "maximum limit that can be undertaken" and "maximum amount that can be used annually".

Each year major portion of the commercial and politic risks emerged in Short Term Export Insurance Program is transferred to international reinsurance companies under renewed agreements.

According to the Article 4/C of Act number 3332 that was appended by Act number 3659 and Act regarding the regulation of Public Financing and Debt Management dated 28 March 2002, the losses incurred by the Bank in its credit, guarantee and insurance transactions as a result of political risks are covered by the Turkish Treasury.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank reviews reports of OECD country risk groupings, reports of the members of the International Union of Credit and Investment Insurers, reports of independent credit rating institutions and the financial statements of the banks risks of which are undertaken during the assessment and review of the loans granted. In addition, country reports and short term country risk classifications prepared within the Bank are also utilized.

The risks and limits of companies and banks are followed by both loan and risk departments on a weekly and monthly basis.

In addition, all of the foreign exchange denominated operations and other derivative transactions of the Bank are carried out under the limits approved by the Board of Directors.

Business and geographic distribution of the loan risks runs parallel with the export composition of Turkey and this is followed up by the Bank regularly.

Impairment and provisioning policies

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The classification of the loan portfolio of the Bank under the following categories is as follows:

	31 December 2012		31 December 2011	
	Corporate Loans	Personnel Loans	Corporate Loans	Personnel Loans
Neither past due nor impaired	13,284,480	2,619	8,040,658	2,406
Past due but not impaired	5,041	-	22,555	-
Individually impaired	112,383	-	114,853	-
	13,401,904	**2,619**	**8,178,066**	**2,406**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2012 and 2011, loans and advances that are past due but not impaired are as follows:

	31 December 2012	31 December 2011
Past due up to 30 days	2,845	279
Past due 30-60 days	-	724
Past due 60-90 days	-	-
Past due over one year	2,237	21,552
Total loans and advances that are past due but not impaired	**5,082**	**22,555**

In line with the mission of the Bank, the Bank grants loans only to corporate customers either directly or indirectly through banks and financial institutions and follows its credit portfolio under categories specified below:

	31 December 2012		31 December 2011	
	Corporate Loans	Personnel Loans	Corporate Loans	Personnel Loans
Standard loans and advances (*)	13,233,076	2,619	7,977,924	2,406
Loans and advances under close monitoring (**)	56,445	-	85,289	-
Impaired loans and advances	112,383	-	114,853	-
Total loans and advances to customers	**13,401,904**	**2,619**	**8,178,066**	**2,406**
Allowance for impairment losses	(241,365)	-	(183,258)	-
Net loans and advances to customers	**13,160,539**	**2,619**	**7,994,808**	**2,406**

(*) Standard corporate loans and advances include loans amounting to TL2.237 thousand (31 December 2011: TL21,552 thousand) which are past due but not impaired as potential losses on those loans are transferred to Turkish Treasury (Notes 8 and 15).

(**) As of 31 December 2012, loans and advances under close monitoring includes loans amounting to TL53,600 thousand (31 December 2011: TL84,286 thousand) that were not past due but had been extended to customers whose other loans are under close monitoring.

As of 31 December 2012 and 2011, the fair value of collaterals held for total loans and advances are as follows:

	31 December 2012		31 December 2011	
	Corporate Loans	Personnel Loans	Corporate Loans	Personnel Loans
Loans guaranteed by other banks	9,707,306	-	4,410,551	-
Loans guaranteed by Turkish Treasury	2,196	-	21,552	-
Loans guaranteed by a third party	-	2,619	-	2,406
Total	**9,709,502**	**2,619**	**4,432,103**	**2,406**
Unsecured exposures (*)	3,692,402	-	3,745,963	-
Total loans and advances to customers	**13,401,904**	**2,619**	**8,178,066**	**2,406**

(*) Unsecured exposures represent loans and advances granted to domestic banks, foreign banks and other financial institutions and individually impaired loans.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2012, the Bank does not have repossessed collateral (2011: None).

Bank's credit rating system

The risk assessment of banks and other financial institutions

The Bank requests independent auditor's report in addition to financial statements and related notes and net foreign currency position from banks and other financial institutions on a quarterly basis.

Financial statement information derived from the independent audit or review reports of banks and other financial institutions is recorded into a database in a standard format and percentage changes and ratios related with the capital adequacy, asset quality, liquidity and profitability of the banks and other financial institutions are calculated. In addition, the standard ratios for capital adequacy, asset quality, liquidity and profitability ratios are redefined periodically considering the operations of the banking groups and acceptable intervals for standard ratios are defined.

In accordance with the standard ratios, the financial analysis groups are defined by assigning grades from 1 to 4 to banks and other financial institutions. Group with grade 1 consists of the lowest risk profile of banks and financial institutions and group with grade 4 consists of the highest risk profile of banks and financial institutions.

In accordance with the financial analysis group of the banks and other financial institutions, the final risk groups are determined by considering qualitative factors such as shareholding structure, group companies, credit ratings from international credit rating institutions, quality of management and also information obtained from media.

As of 31 December 2012, loans granted by the Bank to banks and other financial institutions amount to TL3,727,753 thousand (2011: TL3,631,110 thousand). As of 31 December 2012 and 2011, the concentration level of the loans and advances to banks and other financial institutions which are neither past due nor impaired in accordance with the defined financial analysis groups of the Bank are as follows:

	Rating Class	31 December 2012 Concentration level (%)	31 December 2011 Concentration level (%)
Low	1-2	59	54
Medium	3	23	24
High	4	18	22

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The risk assessment of the companies:

In the risk evaluation of the companies, the Bank obtains financial and organizational information both from the companies and also from various sources (such as Central Bank of the Republic of Turkey ("CBRT") records, Trade Registry Gazette, Chamber of Trade records, information obtained from the Undersecretariat of Foreign Trade, banks and companies operating in the same sector) and uses investigation and verification methods. In addition to the analysis of the last three year financial statements of the companies, the Bank also analyses the current status of the sectors in which the companies operate, economic and political changes affecting the target sectors in the international markets, the advantages and disadvantages of the companies compared to their rival companies operating in or outside Turkey. In case the company is a member of a group of companies not organized as a holding company, the developments that affect the group's operations are monitored and outstanding bank debts of the group are also assessed and company analysis reports are prepared taking into account the group risk as well. The Bank does not utilize a separate rating system regarding the risk assessment of the companies.

As of 31 December 2012 and 2011, the analysis of credit limits for top 60 corporate customers constituting approximately 56% and 67%, respectively of total loans to corporate customers amounting to TL5,201,324 thousand (2011: TL4,409,548 thousand) and whose loans are neither past due nor impaired at 31 December 2012 and 2011 is as follows;

Credit Limits (TL'000)	31 December 2012 Concentration level (%)	31 December 2011 Concentration level (%)
0-20,000	-	4
20,000-40,000	-	21
40,000-60,000	16	23
Over 60,000	84	52

As of 31 December 2012 and 2011, the classification and allowance percentages of the loans and advances of the Bank are as follows:

	31 December 2012		31 December 2011	
	Loans and advances (%)	Allowance for loan losses (%)	Loans and advances (%)	Allowance for loan losses (%)
Standard loans and advances	98.75	0.97	97.55	0.81
Loans and advances under close monitoring	0.42	0.04	1.04	0.03
Impaired loans and advances	0.83	0.83	1.41	1.40
Total	**100.00**	**1.84**	**100.00**	**2.24**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank's maximum exposure to credit risk as of 31 December 2012 and 2011:

	31 December 2012	31December 2011
Credit risk exposures relating to on-balance sheet assets:		
Due from banks	1,215,538	667,357
Loans and advances to		
- Domestic banks and other financial institutions	3,727,753	3,492,429
- Foreign banks and other financial institutions	182,011	138,681
- Corporate customers other than banks and financial institutions and personnel	9,253,394	4,366,104
Trading securities	483,571	342,935
Derivative financial instruments	27,781	15,895
Investment securities		
- Held-to-maturity	300,349	511,436
Other assets	19,220	13,335
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	682,148	518,997
Total	**15,891,765**	**10,067,169**

There are no financial assets that are past due but not impaired and there are no past due or impaired financial assets at 31 December 2012 and 2011, other than loans and advances explained above. As of 31 December 2012 and 2011, the trading securities and investment securities (held to maturity securities) are issued by the Turkish Treasury, the controlling shareholder of the Bank.

The table below shows the concentration level of due from banks for domestic banks and financial institutions which constitute approximately 70% of due from banks account at 31 December 2012 and 2011;

	Rating Class	31 December 2012 Concentration level (%)	31 December 2011 Concentration level (%)
Low	1-2	65	86
Medium	3	32	9
High	4	3	5

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2012 and 2011, the geographical distribution of the on-balance sheet assets exposed to credit risk;

	Turkey	EU Countries	OECD Countries(*)	USA	Other Countries	Total
Due from banks	923,664	180,860	110,816	198	-	1,215,538
Loans and advances to						
- Domestic banks and other financial institutions	3,727,753	-	-	-	-	3,727,753
- Foreign banks and other financial institutions	-	-	-	-	182,011	182,011
- Corporate customers and personnel	9,253,394	-	-	-	-	9,253,394
Trading securities	483,571	-	-	-	-	483,571
Derivative financial instruments	-	27,781	-	-	-	27,781
Investment securities						
- Held-to-maturity	300,349	-	-	-	-	300,349
Other assets	19,220	-	-	-	-	19,220
As of 31 December 2012	**14,707,951**	**208,641**	**110,816**	**198**	**182,011**	**15,209,617**
As of 31 December 2011	**9,339,591**	**27,955**	**1,384**	**40,561**	**138,681**	**9,548,172**

(*) The OECD countries except for EU countries, Canada and USA.

(c) Market risk

The Bank marks to market all its Turkish lira and foreign currency trading security positions as a result of its daily financial activities in order to be able to hedge market risk. In order to limit any possible losses from market risk, the Bank applies a maximum daily transaction and stop/loss limits for all trading Turkish lira and foreign currency transactions including marketable security transactions; such limits are approved by the Board of Directors.

Sensitivity Tests

In accordance with the mission of the Bank, the Bank does not follow a profit oriented strategy but rather follows a strategy aiming to avoid the eroding effects of inflation on the share capital by making reasonable amount of profit. Under this framework, necessary changes to loan interest rates are made considering the changes in cost of funds and market interest rates; changes in the interest rates are made using the expected year-end inflation levels as break-even point considering the return on equity at the same time. In this context, the sensitivity analysis are also prepared under various scenarios (optimistic, pessimistic and normal) and also under abnormal fluctuation (stress) assumptions which measure the sensitivity of the net profit to the changes in market interest rates and the Bank's loan interest rates. Moreover, possible losses arising from interest rate and foreign exchange risk are calculated under various scenarios and in order to minimize possible losses, the Bank undertakes swap transactions (especially money and interest swaps).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The market risk table of calculated market risk at month ends (for one day) for the years ended 31 December 2012 and 2011, as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in Official Gazette no.26333 dated 1 November 2006 showing the maximum and minimum total amount subject to market risk among the twelve months of calculated market risk for each year and the average of the total amount subject to market risk for each month end for 12 months are as follows:

	31 December 2012			31 December 2011		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest Rate Risk	37,378	69,709	15,751	5,448	8,058	3,914
Equity Share risk	-	-	-	-	-	-
Currency Risk	47,260	58,785	36,642	33,383	42,765	30,664
Option Risk	14	148	18	-	-	-
Counterparty Credit Risk	887	2,787	2,511	-	-	-
Total Capital to be Employed for Market Risk (A)	85,539	131,429	54,922	38,831	50,823	34,578
Total Amount Subject to Market Risk (A*12.5)	**1,069,238**	**1,642,863**	**686,525**	**485,387**	**635,287**	**432,225**

(d) Currency risk

Foreign currency denominated assets and liabilities, together with purchase and sale commitments give rise to foreign exchange exposure.

The Bank's foreign exchange position is followed daily, and the transactions are performed in accordance with the expectations in the market and within the limits determined by the Risk Management Principles approved by the Board of Directors of the Bank.

The Bank attempts to maintain a square position in foreign exchange through its on-balance sheet and off-balance sheet activities. As part of its strategy to manage the impact of exchange rates and to hedge against foreign exchange exposure, the Bank enters into swap transactions. Short-term currency swap transactions, carried out during the year to meet exporters' foreign exchange loan demand and to manage the Bank's foreign currency risk.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorized by currency.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The table below summarizes the Bank's exposure to foreign currency exchange rate risk as monitored by management at 31 December 2012 and 2011.

	31 December 2012					
	US$	**EUR**	**JPY**	**Other**	**TL**	**Total**
Cash and due from banks	629,551	64,496	-	5,998	515,506	1,215,551
Trading securities	8,189	-	-	-	475,382	483,571
Derivative financial instruments	26,181	-	-	-	1,600	27,781
Loans and advances to customers	7,636,021	2,512,986	-	11,902	3,002,249	13,163,158
Investment securities						
- Available-for-sale	-	-	-	-	19,220	19,220
- Held-to-maturity	41,951	-	-	-	258,398	300,349
Property and equipment and intangible assets	-	-	-	-	19,835	19,835
Other assets	6,250	8,303	-	17	27,651	42,221
Total assets	**8,348,143**	**2,585,785**	**-**	**17,917**	**4,319,841**	**15,271,686**
Funds borrowed	6,563,654	2,544,531	-	307	-	9,108,492
Debt securities in issue	2,238,610	-	-	-	-	2,238,610
Interbank money market deposits	-	-	-	-	10,006	10,006
Derivative financial instruments	17,912	806	-	-	10,340	29,058
Other liabilities	98,133	41,981	-	-	56,801	196,915
Reserve for employment termination benefits	-	-	-	-	12,440	12,440
Equity	67	-	-	-	3,676,098	3,676,165
Total liabilities and equity	**8,918,376**	**2,587,318**	**-**	**307**	**3,765,685**	**15,271,686**
Net balance sheet position	**(570,233)**	**(1,533)**	**-**	**17,610**	**554,156**	**-**
Off balance sheet derivative instruments net notional position	**579,286**	**(8,950)**	**-**	**-**	**(599,330)**	**(28,994)**

At 31 December 2012, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL1.7831 = US Dollar 1 ("US$") and TL2.3528 = EUR 1.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2011					
	US$	EUR	JPY	Other	TL	Total
Cash and due from banks	78,986	103,297	1,384	1,789	481,913	667,369
Trading securities	41,571	-	-	-	301,364	342,935
Derivative financial instruments	9	-	3	-	15,883	15,895
Loans and advances to customers	4,247,885	1,199,808	8,296	6,404	2,534,821	7,997,214
Investment securities						
- Available-for-sale	-	-	-	-	11,295	11,295
- Held-to-maturity	45,364	-	-	-	466,072	511,436
Property and equipment and intangible assets	-	-	-	-	10,262	10,262
Other assets	5,042	8,954	-	15	12,727	26,738
Total assets	**4,418,857**	**1,312,059**	**9,683**	**8,208**	**3,834,337**	**9,583,144**
Funds borrowed	3,023,234	1,646,526	-	-	-	4,669,760
Debt securities in issue	960,419	-	-	-	-	960,419
Interbank money market deposits	-	-	-	-	157,988	157,988
Derivative financial instruments	12,547	-	-	-	10,770	23,317
Other liabilities	33,901	6,467	-	-	71,672	112,040
Reserve for employment termination benefits	-	-	-	-	11,560	11,560
Equity	129	-	-	-	3,647,931	3,648,060
Total liabilities and equity	**4,030,230**	**1,652,993**	**-**	**-**	**3,899,921**	**9,583,144**
Net balance sheet position	**388,627**	**(340,934)**	**9,683**	**8,208**	**(65,584)**	**-**
Off balance sheet derivative instruments net notional position	**(404,802)**	**333,855**	**6,699**	**-**	**56,603**	**(7,645)**

At 31 December 2011, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL1.9141 = US$1 and TL2.4730 = EUR1.

As of 31 December 2012 and 2011, the effect of the devaluation of TL by 10% against other currencies mentioned below, on net profit and equity of the Bank, are presented in the table below. The analysis covers all foreign currency denominated assets and liabilities. The other variables, especially interest rates are assumed to be fixed.

	31 December 2012		31 December 2011	
	Effect on Net Profit	Effect on Equity (*)	Effect on Net Profit	Effect on Equity (*)
US$	(8,597)	(8,590)	(1,620)	(1,607)
EUR	(153)	(153)	(1,377)	(1,377)
JPY	-	-	968	968
Other currencies	1,762	1,762	822	822
Total	**(6,988)**	**(6,981)**	**(1,207)**	**(1,194)**

(*) Effect on equity also includes effect on net income.

As of 31 December 2012 and 2011, the effect of the appreciation of TL by 10% against other currencies with all other variables held constant, on net profit and equity of the Bank is the same as the total amount with a negative sign as presented in the above table.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

(e) Interest rate risk

The Bank estimates the effects of the changes in interest rates on the profitability of the Bank by analyzing TL and foreign currency denominated interest rate sensitive assets and liabilities considering both their interest components as being fixed rate or variable rate and also analyzing their weights among the Bank's total assets and liabilities. Long or short positions arising from interest rate risk are determined by currency types at the related maturity intervals (up to 3 months, 3 months to 1 year, 1 year to 5 years and over 5 years) as of the period remaining to repricing date, considering the repricing of TL and foreign currency-denominated interest sensitive assets and liabilities at maturity date (for fixed rate) or at interest payment dates (for floating rate). By classifying interest sensitive assets and liabilities according to their repricing dates, Bank's exposure to possible variations in market interest rates are determined.

The Bank determines maturity mismatches of assets and liabilities by analyzing the weighted average days to maturity of TL and foreign currency-denominated (for each currency and in total in terms of their US$ equivalents) assets and liabilities.

According to the Risk Management Policy approved by the Board of Directors, the Bank emphasizes the matching of assets and liabilities with fixed and floating interest rates and under different currencies and also pays special attention to the level of maturity mismatch of assets and liabilities with floating and fixed interest rates in relation to the asset size of the Bank in order to limit the negative effects of interest rate changes on the Bank's profitability.

As of 31 December 2012 and 2011, the tables below summarize the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates;

	31 December 2012					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks	1,183,481	-	-	-	32,070	1,215,551
Trading securities	284,045	191,340	-	8,186	-	483,571
Derivative financial instruments	1,600	26,181	-	-	-	27,781
Loans and advances to customers	7,930,059	5,190,780	42,319	-	-	13,163,158
Investment securities						
- Available-for-sale	-	-	-	-	19,220	19,220
- Held-to-maturity	189,902	72,317	38,130	-	-	300,349
Property and equipment and intangible assets	-	-	-	-	19,835	19,835
Other assets	-	-	-	-	42,221	42,221
Total assets	**9,589,087**	**5,480,618**	**80,449**	**8,186**	**113,346**	**15,271,686**
Funds borrowed	6,809,370	2,299,122	-	-	-	9,108,492
Debt securities in issue	-	1,935,136	-	303,474	-	2,238,610
Interbank money market deposit	10,006	-	-	-	-	10,006
Derivative financial instruments	13,885	15,173	-	-	-	29,058
Other liabilities	3,889	10,666	506	-	181,854	196,915
Reserve for employment termination benefits	-	-	-	-	12,440	12,440
Total liabilities	**6,837,150**	**4,260,097**	**506**	**303,474**	**194,294**	**11,595,521**
Net repricing gap	**2,751,937**	**1,220,521**	**79,943**	**(295,288)**	**(80,948)**	**3,676,165**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2011					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Cash and due from banks	659,189	-	-	-	8,180	667,369
Trading securities	63,279	207,159	32,855	39,642	-	342,935
Derivative financial instruments	12,892	3,003	-	-	-	15,895
Loans and advances to customers	4,137,735	3,779,769	79,710	-	-	7,997,214
Investment securities						
- Available-for-sale	-	-	-	-	11,295	11,295
- Held-to-maturity	224,795	196,179	90,462	-	-	511,436
Property and equipment and intangible assets	-	-	-	-	10,262	10,262
Other assets	-	-	-	-	26,738	26,738
Total assets	**5,097,890**	**4,186,110**	**203,027**	**39,642**	**56,475**	**9,583,144**
Funds borrowed	2,938,965	1,730,795	-	-	-	4,669,760
Debt securities in issue	-	-	960,419	-	-	960,419
Interbank money market deposit	157,988	-	-	-	-	157,988
Derivative financial instruments	23,226	91	-	-	-	23,317
Other liabilities	13,085	14,674	3,630	-	80,651	112,040
Reserve for employment termination benefits	-	-	-	-	11,560	11,560
Total liabilities	**3,133,264**	**1,745,560**	**964,049**	**-**	**92,211**	**5,935,084**
Net repricing gap	**1,964,626**	**2,440,550**	**(761,022)**	**39,642**	**(35,736)**	**3,648,060**

The tables below summarise the range for effective average interest rates by major currencies for monetary financial instruments of the Bank at 31 December 2012 and 2011:

	31 December 2012			
	US$ (%)	EUR (%)	JPY (%)	TL (%)
<u>Assets</u>				
Cash and due from banks				
-Time deposits in foreign banks	0.31	0.40	-	-
-Time deposits in domestic banks	-	-	-	5.54
-Interbank money market placements	-	-	-	6.13
Trading securities	4.43	-	-	7.73
Loans and advances to customers	2.06	2.63	2.51	8.19
Investment securities				
-Held-to-maturity	6.77	-	-	8.39
<u>Liabilities</u>				
Funds borrowed	0.90	1.84	-	-
Debt securities in issue	4.17	-	-	-
Interbank money market deposits	-	-	-	5.65

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2011			
	US$ (%)	**EUR (%)**	**JPY (%)**	**TL (%)**
Assets				
Cash and due from banks				
-Time deposits in foreign banks	0.35	0.64	-	-
-Time deposits in domestic banks	-	-	-	10.13
-Interbank money market placements	-	-	-	10.40
Trading securities	6.20	-	-	7.99
Loans and advances to customers	1.67	2.76	2.60	7.48
Investment securities				
-Held-to-maturity	6.77	-	-	8.89
Liabilities				
Funds borrowed	0.75	2.50	-	-
Debt securities in issue	5.38	-	-	-
Interbank money market deposits	-	-	-	5.75

In the analysis presented below, the sensitivity of the statement of comprehensive income is the effect of (+) 1% and (-) 1% decrease in the interest rates on the net interest income of floating rate financial assets and liabilities at 31 December 2012 and 2011. The sensitivity of the shareholders' equity at 31 December 2012 and 2011 is calculated through revaluating the financial assets available-for-sale taking into account the possible changes in interest rates, where applicable. The tax effects are not considered in the analysis. The other variables, especially exchanges rates, are assumed to be fixed in this analysis.

	31 December 2012		31 December 2011	
	(+) 1% Gain/(Loss) Effect	**(-) 1% Gain/(Loss) Effect**	**(+) 1% Gain/(Loss) Effect**	**(-) 1% Gain/(Loss) Effect**
TL	(2,768)	2,722	(1,618)	1,537
US$	1,408	(1,684)	1,933	(1,776)
EUR	3,724	(3,639)	616	(715)
Other foreign currencies	26	(28)	32	(34)
Total	**2,390**	**(2,629)**	**963**	**(988)**

(f) Liquidity risk

A major objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments and to satisfy the Bank's own liquidity needs. The Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets determined by the Board of Directors which it judges sufficient to meet its commitments.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity management of the Bank. The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions. It is unusual for banks ever to be completely matched since the maturity, interest rates and the types of business transactions are different. 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.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank uses the TL and foreign currency cash flow schedules prepared weekly, monthly and annually in the decision making process of the liquidity management.

As of 31 December 2012 and 2011, the table below analyses the assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity dates.

	31 December 2012					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No stated maturity	Total
Cash and due from banks	1,183,481	-	-	-	32,070	1,215,551
Trading securities	169,419	191,348	114,616	8,188	-	483,571
Derivative financial instruments	1,600	3	22,209	3,969	-	27,781
Loans and advances to customers	6,767,108	4,982,802	1,325,925	87,323	-	13,163,158
Investment securities						
- Available-for-sale	-	-	-	-	19,220	19,220
- Held-to-maturity	57,192	87,476	155,681	-	-	300,349
Property and equipment and intangible assets	-	-	-	-	19,835	19,835
Other assets	-	-	-	-	42,221	42,221
Total assets	**8,178,800**	**5,261,629**	**1,618,431**	**99,480**	**113,346**	**15,271,686**
Funds borrowed	5,776,448	2,434,740	226,388	670,916	-	9,108,492
Debt securities in issue	-	-	895,482	1,343,128	-	2,238,610
Interbank market deposits	10,006	-	-	-	-	10,006
Derivative financial instruments	13,885	15,173	-	-	-	29,058
Other liabilities	3,889	10,666	506	-	181,854	196,915
Reserve for employment termination benefits	-	-	-	-	12,440	12,440
Total liabilities	**5,804,228**	**2,460,579**	**1,122,376**	**2,014,044**	**194,294**	**11,595,521**
Net liquidity gap	**2,374,572**	**2,801,050**	**496,055**	**(1,914,564)**	**(80,948)**	**3,676,165**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2011					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No stated maturity	Total
Cash and due from banks	667,369	-	-	-	-	667,369
Trading securities	63,279	207,159	32,855	39,642	-	342,935
Derivative financial instruments	12,892	3,003	-	-	-	15,895
Loans and advances to customers	3,531,760	3,830,107	635,347	-	-	7,997,214
Investment securities						
- Available-for-sale	-	-	-	-	11,295	11,295
- Held-to-maturity	180,364	77,893	164,583	88,596	-	511,436
Property and equipment and intangible assets	-	-	-	-	10,262	10,262
Other assets	-	11,599	15,139	-	-	26,738
Total assets	**4,455,664**	**4,129,761**	**847,924**	**128,238**	**21,557**	**9,583,144**
Funds borrowed	2,260,587	1,836,534	207,630	365,009	-	4,669,760
Debt securities in issue	-	-	960,419	-	-	960,419
Interbank market deposits	157,988	-	-	-	-	157,988
Derivative financial instruments	23,226	91	-	-	-	23,317
Other liabilities	13,085	44,674	54,281	-	-	112,040
Reserve for employment termination benefits	11,560	-	-	-	-	11,560
Total liabilities	**2,466,446**	**1,881,299**	**1,222,330**	**365,009**	**-**	**5,935,084**
Net liquidity gap	**1,989,218**	**2,248,462**	**(374,406)**	**(236,771)**	**21,557**	**3,648,060**

The undiscounted cash flows of the financial liabilities of the Bank into relevant maturity grouping based on the remaining period at 31 December 2012 and 2011 to the contractual maturity dates are presented in the tables below:

	31 December 2012					
	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Funds borrowed	5,914,353	2,262,942	491,260	856,816	-	9,525,371
Debt securities in issue	-	101,559	1,250,012	1,430,151	-	2,781,722
Interbank money market deposits	11,049	-	-	-	-	11,049
Other financial liabilities	3,889	1,512	115,926	-	-	121,327
Total financial liabilities	**5,929,291**	**2,366,013**	**1,857,198**	**2,286,967**	**-**	**12,439,469**

	31 December 2011					
	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Funds borrowed	2,265,361	1,875,871	345,535	457,591	-	4,944,358
Debt securities in issue	-	52,442	1,165,674	-	-	1,218,116
Interbank money market deposits	158,824	-	-	-	-	158,824
Other financial liabilities	36,311	7,652	54,080	-	-	98,043
Total financial liabilities	**2,460,496**	**1,935,965**	**1,565,289**	**457,591**	**-**	**6,419,341**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The undiscounted cash inflows and outflows of derivative transactions of the Bank at 31 December 2012 and 2011 are presented in the tables below:

	31 December 2012				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Derivatives held for trading:					
Foreign exchange derivatives:					
- Outflow	817,917	-	-	266,098	1,084,015
- Inflow	805,387	-	-	249,634	1,055,021
Interest rate derivatives:					
- Outflow	1,424	39,603	145,982	-	187,009
- Inflow	684	48,376	145,365	-	194,425
Total outflow	**819,341**	**39,603**	**145,982**	**266,098**	**1,271,024**
Total inflow	**806,071**	**48,376**	**145,365**	**249,634**	**1,249,446**

	31 December 2011				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Derivatives held for trading:					
Foreign exchange derivatives:					
- Outflow	1,208,387	-	-	-	1,208,387
- Inflow	1,200,742	-	-	-	1,200,742
Interest rate derivatives:					
- Outflow	1,529	1,529	6,802	-	9,860
- Inflow	712	832	3,403	-	4,947
Total outflow	**1,209,916**	**1,529**	**6,802**	**-**	**1,218,247**
Total inflow	**1,201,454**	**832**	**3,403**	**-**	**1,205,689**

As of 31 December 2012 and 2011, the maturity groupings of financial guarantees and commitments based on the earliest period they can be claimed from the Bank are as follows:

	31 December 2012				
	Up to 1 month	**1 month to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total**
Other guarantees	112,114	567,105	2,929	-	682,148
Total	**112,114**	**567,105**	**2,929**	**-**	**682,148**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2011				
	Up to 1 month	1 month to 6 months	6 months to 1 year	Over 1 year	Total
Share capital investment commitment	-	-	-	1,000	1,000
Other guarantees	113,933	403,610	1,454	-	518,997
Total	**113,933**	**403,610**	**1,454**	**1,000**	**519,997**

(g) Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a current market exchange.

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

(i) Financial assets

The fair values of certain financial assets carried at cost or amortized cost, including cash and due from banks (including receivables from CBRT) are considered to approximate their respective carrying values due to their short-term nature.

The fair value of investment securities has been determined based on bid market prices at balance sheet dates.

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount, at current market rates, of future cash flows expected to be received.

The fair value of other financial assets is also considered to approximate their respective carrying values due to their nature.

(ii) Financial liabilities

The fair value of funds borrowed is based on market prices or are based on discounted cash flows using current interest rates prevailing at the balance sheet date (Note 13).

The fair value of other financial liabilities is also considered to approximate their respective carrying values due to their nature.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

(iii) Derivative financial instruments

The fair values of foreign exchange and interest rate swaps have been estimated based on quoted market rates prevailing at the balance sheet date (Notes 7 and 22).

The following table summarises the carrying amounts and fair values of those significant financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	31 December 2012		31 December 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Cash and due from Banks	1,215,551	1,215,551	667,369	667,369
Investment securities				
- Held to maturity	300,349	303,419	511,436	513,720
Loans and advances to customers	13,163,158	13,257,628	7,997,214	8,082,416
Other financial assets	31,012	31,012	26,228	26,288
Financial liabilities:				
Funds borrowed	9,108,492	9,117,917	4,669,760	4,683,915
Debt securities in issue	2,238,610	2,239,289	960,419	965,280
Interbank money market deposits	10,006	11,629	157,988	159,500
Other financial liabilities	233,624	233,624	93,224	93,224

The following table summarizes the fair values of those financial assets and liabilities presented on the Bank's balance sheet based on the hierarchy of valuation technique as of 31 December 2012 and 2011.

31 December 2012	**Level 1 (*)**	**Level 2 (**)**	**Level 3 (***)**	**Total**
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	483,571	-	-	483,571
- Derivatives	-	27,781	-	27,781
Available-for-sale financial assets				
- Investment securities - equity	15,010	-	4,210 (****)	19,220
Total assets	**498,581**	**27,781**	**4,210**	**530,572**
Financial liabilities at fair value through profit and loss				
Financial liabilities held for trading				
- Derivatives	-	29,058	-	29,058
Total liabilities	-	**29,058**	-	**29,058**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2011	Level 1 (*)	Level 2 (**)	Level 3 (***)	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	342,935	-	-	342,935
- Derivatives	-	15,895	-	15,895
Available-for-sale financial assets				
- Investment securities - equity	8,295	-	3,000(****)	11,295
Total assets	**351,230**	**15,895**	**3,000**	**370,125**
Financial liabilities at fair value through profit and loss				
Financial liabilities held for trading				
- Derivatives	-	23,317	-	23,317
Total liabilities	-	**23,317**	-	**23,317**

(*) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed equity securities and debt instruments actively traded on exchanges.
(**) Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.
(***) Fair values are calculated with unobservable inputs for equity instruments.
(****) Note 9a.

(h) Capital management

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

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current period minus period loss (if any), prepaid expenses, leasehold improvements and intangible assets), its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations in financial institutions, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk, market risk and operational risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

The Bank has complied with the minimum capital adequacy ratio requirement, stated above, for the years ended 31 December 2012 and 2011.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank's regulatory capital position on at 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
Tier I capital	3,668,747	3,657,278
Tier II capital	134,841	49,949
Total regulatory capital (A)	3,803,588	3,707,227
Risk-weighted assets (including market and operational risk) (B)	15,141,208	9,062,838
Capital adequacy ratio (%) (A)/(B)	**25.12**	**40.91**

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances to customers

The Bank reviews its loan portfolio periodically, to assess impairment. For individually impaired assets, the Bank provides 100% impairment.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgement about counterparty's financial situation and the net realisable value of any underlying collateral. As of 31 December 2012 and 2011, the Bank provided 100% impairment provision for individually impaired loans and advances.

Collective impairment allowances cover credit losses inherent in the portfolio of loans with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the required input parameter, based on historical experience and current economic conditions. Were the defined input parameter where the collective loan loss allowance is based differ by +/- 5%, the impairment loss to be estimated is TL66,760 thousand higher/lower.

(b) Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques such as discounted cash flow models. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 5 - CASH AND DUE FROM BANKS

	31 December 2012	31 December 2011
Cash funds:		
Cash on hand	13	12
	13	**12**
Current accounts and demand deposits:		
CBRT	538	25,660
Foreign banks	11,015	5,751
Domestic banks	880	1,516
	12,433	**32,927**
Time deposits:		
CBRT	19,625	-
Foreign banks	280,860	40,051
Domestic banks	506,181	469,788
	806,666	**509,839**
Interbank money market placements	**396,439**	**124,591**
Total cash and due from banks	**1,215,551**	**667,369**

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December is as follows:

	31 December 2012	31 December 2011	31 December 2010
Cash and due from banks	1,215,551	667,369	886,771
Less: interest accruals	(994)	(456)	(1,300)
Less: time deposits with maturities exceeding 3 months	-	-	(25,000)
Cash and cash equivalents	**1,214,557**	**666,913**	**860,471**

Cash and cash equivalents are mainly composed of bank deposits and interbank money market placements with original maturity periods of less than three months as of 31 December 2012, 2011 and 2010.

NOTE 6 - TRADING SECURITIES

	31 December 2012	31 December 2011
Government bonds	475,382	301,364
Eurobonds	8,189	41,571
	483,571	**342,935**

As of 31 December 2012, the carrying value of securities subject to repo transactions is TL9,712 thousand (2011: TL230,868 thousand). As of 31 December 2012, government bonds amounting to TL247,270 thousand (31 December 2011: 92,680 thousand) have been pledged as collateral with the CBRT and ISE.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

The Bank utilises the following derivative instruments:

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of principal as well. The Bank's "credit risks" represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favorable (as assets) or unfavorable (as liabilities) as a result of fluctuations in foreign exchange rates and interest rates. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held as of 31 December 2012 and 2011 are set out in the following table:

	31 December 2012 Fair value		31 December 2011 Fair value	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps purchases and sales	-	(3,601)	-	(4,842)
Foreign currency swaps purchases and sales	27,781	(11,373)	15,895	(18,475)
Cross currency swaps purchases and sales	-	(14,084)	-	-
Total derivative assets/(liabilities)	**27,781**	**(29,058)**	**15,895**	**(23,317)**

As also explained in Note 2 (c), even though certain derivative transactions, while providing effective economic hedges under the Bank's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading.

The notional amounts of derivative transactions are explained in detail in Note 22.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

The Bank follows loans and advances to customers under one class as corporate loans; the classifications in the table below mainly refer to lending programs of the Bank to corporate customers;

	31 December 2012	31 December 2011
Short-term		
Financial institutions	3,078,761	2,739,251
Export guaranteed loans	795,489	527,065
Fund sourced loans (Note 15)	-	17,922
Specialised loans	133,639	64,424
Discount loans	6,891,590	3,113,343
Other guaranteed loans	17,790	18,690
	10,917,269	**6,480,695**
Medium and long-term		
Financial institutions	648,992	753,178
Export guaranteed loans	1,202,370	417,730
Foreign country loans (political risks)	182,011	138,681
Specialized loans	14,675	19,012
Export guaranteed investment loans	66,697	10,550
Fund sourced loans (Note 15)	2,237	3,630
Other	201,444	156,854
	2,318,426	**1,499,635**
Performing loans	**13,235,695**	**7,980,330**
Loans under close monitoring	56,445	85,289
Impaired loans and advances	112,383	114,853
Gross loans and advances to customers	**13,404,523**	**8,180,472**
Allowance for loan losses	(241,365)	(183,258)
Net loans and advances to customers	**13,163,158**	**7,997,214**

The Bank provides 100% impairment provision for non-performing loans amounting to TL112,383 thousand (31 December 2011: TL114,853 thousand) comprising 0.84% (31 December 2011: 1.40%) of the total loans outstanding at 31 December 2012. The Bank also provided an additional impairment provision amounting to TL128,982 thousand (31 December 2011: TL68,405 thousand) for other components of the loan portfolio to cover the incurred of loss present in the lending relationship but not yet identified with a specific loan.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements in the provision for impairment losses for the years ended 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Balance at the beginning of the year	**183,258**	**173,639**
Recoveries (Note 20)	(2,680)	(8,794)
Provision for the year	60,787	18,413
Balance at the end of the year	**241,365**	**183,258**

Loans and advances to the public and private sector are as follows:

	31 December 2012	31 December 2011
Public sector	693,452	832,133
Private sector	12,711,072	7,348,339
	13,404,524	**8,180,472**

NOTE 9 - INVESTMENT SECURITIES

(a) Available-for-sale securities:

	31 December 2012	31 December 2011
Equity securities		
- Listed	15,010	8,295
- Unlisted	4,210	3,000
Total available-for-sale securities	**19,220**	**11,295**

There are no securities pledged under repurchase agreements or pledged as collateral with financial institutions.

Unrealised gain and losses arising from changes in the fair value of securities classified as "available-for-sale" are recognized in other comprehensive income unless there is objective evidence that the asset is impaired in which case they are charged to the income statement.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 9 - INVESTMENT SECURITIES (Continued)

The breakdown of available-for-sale equity securities at 31 December 2012 and 2011 are as follows:

	Share %		Carrying Amount		
Equity securities	**2012**	**2011**	**2012**	**2011**	**Business**
Garanti Faktoring Hizmetleri A.Ş.	9.78	9.78	15,010	8,295	Factoring
Kredi Garanti Fonu A.Ş. (*)	1.66	1.66	4,210	3,000	Financial services
			19,220	**11,295**	

(*) On 15 October 2009, the Bank acquired 1.66% interest in Kredi Garanti Fonu A.Ş. (Credit Guarantee Fund) which was established to provide financing support to small and medium size enterprises with a total consideration of TL2,000 thousand as cash and TL2,000 thousand as share capital commitment. In 2012, the Bank completely fulfilled its capital liability of TL4,000 thousand and increased its capital in Kredi Garanti Fonu A.Ş. to TL4,210 thousand via purchase of shares that amount to TL210,000. The bank's share has gone up to 1.75% after this share purchase transaction.

(b) Held-to-maturity securities:

	31 December 2012	31 December 2011
Debt Securities		
- Government bonds	258,398	466,072
- Eurobonds	41,951	45,364
Total held-to-maturity securities	**300,349**	**511,436**

As of 31 December 2012, government bonds and treasury bills amounting to TL193,976 thousand (2011: TL182,309 thousand) have been pledged as collateral with the CBRT and Istanbul Stock Exchange-Settlement and Custody Bank.

The movement of held-to-maturity securities for the years ended 31 December 2012 and 2011 are as follows:

	2012	2011
Balance at 1 January	**511,436**	**891,703**
Purchases	92,167	242,578
Redemptions	(287,169)	(639,199)
Foreign exchange difference	(3,860)	10,938
Interest income accruals	(12,225)	5,416
Balance at 31 December	**300,349**	**511,436**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 10 - PROPERTY AND EQUIPMENT

	Land and Buildings	Vehicles	Other tangibles	Total
At 1 January 2011				
Cost	17,134	553	10,129	27,816
Accumulated depreciation (-)	9,753	553	9,406	19,712
Net book amount	**7,381**	-	**723**	**8,104**
Year ended 31 December 2011				
Opening net book amount	7,381	-	723	8,104
Additions	-	805	1,502	2,307
Depreciation charge (-)	310	37	371	718
Closing net book amount	**7,071**	**768**	**1,854**	**9,693**
At 31 December 2011				
Cost	17,134	1,358	11,631	30,123
Accumulated depreciation (-)	10,063	590	9,777	20,430
Net book amount	**7,071**	**768**	**1,854**	**9,693**
Year ended 31 December 2012				
Opening net book amount	7,071	768	1,854	9,693
Additions (*)	9,883	1,289	889	12,061
Disposals (**)	6,867	346	195	7,408
Depreciation charge (net) (**)	5,330	50	(351)	5,029
Closing net book amount	**15,417**	**1,761**	**2,197**	**19,375**
At 31 December 2012				
Cost	20,150	2,301	12,325	34,776
Accumulated depreciation (-)	4,733	540	10,128	15,401
Net book amount	**15,417**	**1,761**	**2,197**	**19,375**

(*) A portion of the expenses made on Istanbul Headquarters Building will be charged to the landlord in line with the provisions of the lease agreement and deducted from the rent payments. The amount to be charged to the landlord has been defined at the rate of the service fees stated in the offers for mechanical installations by the companies which won the tender of performing decoration and static reinforcement. The sum of service invoices of the companies is TRY11,106,192 as at 31 December 2012. The portion corresponding to TRY9,883,122 which is excluded from the amount charged to the landlord is recognised as operating lease development cost.

(**) It has been resolved to sell Ankara Headquarters Building and the said amount has been taken out of tangible fixed assets account and transferred to assets held for sale and discontinued operations account at its net carrying amount at TL1,227 thousand. Amortisation amount of the fixed assets disposed is TRY6,179 as of 31 December 2012 and accumulated amortisation within the period amounts to TRY1,149.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 11 - INTANGIBLE ASSETS

	31 December 2012	31 December 2011
Opening net book amount	569	390
Additions (*)	213	488
Disposals	-	-
Amortisation charge (-)	322	309
Net book amount	**460**	**569**
Cost	1,890	1,677
Accumulated amortisation (-)	1,430	1,108
Net book amount	**460**	**569**

(*) Additions represent computer software purchases.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 12 - OTHER ASSETS

	31 December 2012	31 December 2011
Financial assets		
Receivables from Development and Support Fund	8,681	9,319
Insurance premiums receivables	5,938	4,304
Other	16,393	12,605
Non-financial assets		
Upfront fees paid	17,048	8,039
Other	2,842	1,790
	50,902	36,057
Provision for impairment on other assets	(8,681)	(9,319)
	42,221	**26,738**

As at 31 December 2012, US$447,071 (TL797 thousand, 2011: TL856 thousand) receivable from the Development and Support Fund is due to the incomplete payment of General Headquarters of Gendarme regarding the military equipment purchases. Rest of the receivables from the Development and Support Fund, amounting to US$4,421,357 (TL7,884 thousand, 2011: TL8,463 thousand), arises from the exchange losses due to the late transfer of the funds to the Bank from the Ministry of Defense. As of 31 December 2012, there is no improvement in the collection of these receivables and 100% provision is recognised as provision for impairment on other assets.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 13 - FUNDS BORROWED

	31 December 2012	31 December 2011
Interbank money market deposits - TL	**10,006**	**157,988**
Domestic Banks	7,072,720	3,432,740
Foreign Banks	2,035,772	1,237,020
Funds borrowed	**9,108,492**	**4,669,760**

Interest rate for interbank money market deposits is 5.65% and the maturity dates of such deposits is 25 January 2013.

The breakdown of funds borrowed as of 31 December 2012 and 2011 is as follows:

31 December 2012	Original Currency Amount ('000)	Original Currency	Interest rate	TL ('000)	Maturity Dates
CBRT loans	3,146,435	US$	0.73	5,610,408	(*)
CBRT loans	506,687	EUR	0.64	1,192,133	(*)
CBRT loans	106	GBP	0.64	307	(*)
Syndicated loan	349,826	EUR	1.49-1.50	823,070	17 January 2013- 28 June 2013
World Bank (EFIL) Loans	200,336	US$	0.76	357,220	1 March 2038
World Bank (EFIL) Loans	51,279	EUR	0.50	120,649	1 March 2038
Subordinated loan	91,841	US$	0.87	163,762	15 April 2018
European Investment Bank	111,519	US$	2.31-2.59	198,850	16 January 2024- 29 July 2024
European Investment Bank	88,347	EUR	0.72-1.78	207,863	17 December 2021- 29 July 2024
ING Bank NV	50,123	EUR	2.70	117,930	26 February 2013
Standard Chartered Bank	50,423	US$	2.46	89,910	22 August 2013
Garanti Bank International N.V.	10,079	EUR	2.96	23,715	24 September 2013
Mizuho Corporate Bank Ltd	25,149	EUR	1.67	59,172	21 August 2013
Emirates National Bank of Dubai	15,070	US$	3.01	26,872	25 July 2013
Doha Bank	25,226	US$	3.17	44,980	19 March 2013
Alahli Bank of Kuwait Ksc	25,133	US$	3.74	44,814	8 May 2013
National Bank of Kuwait	15,051	US$	3.31	26,837	21 May 2015
Total funds borrowed				**9,108,492**	

31 December 2011	Original Currency Amount ('000)	Original Currency	Interest rate	TL ('000)	Maturity Dates
CBRT loans	1,341,761	US$	1.13	2,568,264	(*)
CBRT loans	199,980	EUR	2.18	494,551	(*)
Syndicated loan	165,220	EUR	2.58	408,590	1 June 2012
World Bank (EFIL) Loans	129,156	US$	0.53	247,217	1 March 2038
Subordinated loan	108,538	US$	0.71	207,753	15 April 2018
T.C. Ziraat Bankası A.Ş.	50,556	EUR	3.72	125,026	13 March 2012
ING Bank NV	50,532	EUR	3.73	124,966	15 August 2012
ING Bank - Amsterdam	70,952	EUR	2.89	175,465	25 April 2012 - 7 November 2012
Demir-Halkbank NV - Netherland	25,238	EUR	3.75	62,414	29 March 2012
Mizuho Corporate Bank Ltd	25,228	EUR	2.59	62,389	24 August 2012
European Investment Bank	50,142	EUR	2.03-2.19	124,002	17 December 2021- 3 October 2023
World Bank (EFIL) Loans	12,720	EUR	1.78	31,457	1 March 2038
Ziraat International AG	15,231	EUR	4.03	37,666	15 August 2012
Total funds borrowed				**4,669,760**	

(*) CBRT loans are rediscount loans extended by CBRT, having wide range of maturity dates.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 13 - FUNDS BORROWED (Continued)

The repayment of the funds borrowed was as follows during 2012:

	Repayment Amount	Repayment Dates
Subordinated Loans	US$8,333,000	15 April 2012
Doha Bank	US$25,000,000	18 September 2012
Subordinated Loans	US$8,333,000	15 October 2012
Ziraat Bankası	EUR50,000,000	13 March 2012
Demir – Halk Bank	EUR25,000,000	30 March 2012
Club Loan, Syndicated Loan	EUR165,000,000	1 June 2012
Ziraat International	EUR15,000,000	15 August 2012
Mizuho Corporate Bank Ltd	EUR25,000,000	17 August 2012
Ing Bank N.V.	EUR50,000,000	12 September 2012

Debt securities in issue

As of 31 December 2012, the total liability amount due for bonds issued by the Bank on October 2011 and April 2012, amounting to US$1,000 million and October 2012 amounting to US$250 million is TL2,238,610 thousand with TL2,228,875 thousand as principal and the TL9,735 thousand as interest.

NOTE 14 - TAXATION

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3rd Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states "The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520", the exemption from Corporation Tax continues. Accordingly, deferred tax asset or liability is not recognized in these financial statements.

NOTE 15 - OTHER LIABILITIES

The principal components of other liabilities are as follows:

	31 December 2012	31 December 2011
Financial liabilities		
Guarantees received (*)	108,558	29,305
Positive price difference on bonds issued (**)	43,454	-
Turkish Treasury-current account-Iraq Credit	2,196	21,454
Funds	41	98
Other (***)	19,451	42,362
Non-financial liabilities		
Vacation pay liability (****)	8,731	6,802
Insurance technical provisions	5,325	4,900
Other	9,159	7,119
	196,915	**112,040**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 15 - OTHER LIABILITIES (Continued)

(*) Guarantees received refers to cash guarantees obtained in relation to Pre-shipment export credits, which has increased in line with the increase in the amount of pre-shipment export credits.

(**) In addition to the bond issuance transaction amounting to US$500,000 in April 2012, the bank issued bonds amounting to US$250,000 in October 2012. As the price of the issued bonds corresponds to 109,875% as at the issuance date, a positive price difference has come up. The transaction has been divided into instalments until the maturity date according to the principle of periodicity in accounting and the sum corresponding to each month is accounted for by reducing expense rediscount.

(***) This amount covers the bonus accrual amounting to TL30,000 thousand allocated by the Bank management for the second half of 2008 and for the years 2009, 2010 and 2011, in which no bonus was paid to the employees, taking into the account the cases that resulted in decisions against the Bank (Note 22). This amount has been paid to the personnel as of 31 December 2012 and does not include any provision (Note 21).

(****) Payment amounting to TL1,334 thousand was made from the vacation pay liability account during the year 2012.

Turkish Treasury-current account-Iraq Credit

As of 31 December 2012, the TL amount under Turkish Treasury Current Account followed under 145-Medium Long term Fund Sourced Loans includes the foreign exchange differences calculated for the Iraq Loan whose risk has been transferred to the Turkish Treasury. The total FC amount under Turkish Treasury Current Account belongs to Iraq Loan. In addition, Law No. 6111 on restructuring some receivables became valid in 25 February 2011. This restructuring enabled restructuring of Iraq loans sourced by Development and Supporting Fund (DSF). The first four installment amounts, paid by the firms which paid in advance or applied for payment in installments within the firms applied for restructuring with respect to the law came into force, are transferred to the accounts of Treasury as of 31 December 2011. In addition, TL1,145 thousand against US$642 thousand was collected from the firms making payment in installments and transferred to Treasury as of 31 December 2012. The loans of the firms not under restruction were cut within maturity and removed from balance sheet. The amounts removed from the balance sheet are TL16,788 thousand against US$9,415 thousand as of 31 December 2012. The Iraq Loan of TL21,454 thousand as of 31 December 2012 followed on behalf of Undersecreteriat of Treasury was materialized as TL2,196 thousand as of 31 December 2011 together with TL17,933 thousand discount and collections and TL1,325 thousand exchange rate difference in the context of restructuring.

The movements for insurance technical provision are as follows:

	31 December 2012	31 December 2011
1 January	4,900	4,054
Paid claims	(5,406)	(3,625)
Increase	5,831	4,471
31 December	**5,325**	**4,900**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 16 - RETIREMENT BENEFIT OBLIGATIONS

Under the Turkish Labor Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL3,033.98 in full TL amount (2011: TL2,731.85) as of 31 December 2012.

The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees.

IAS 19 "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2012 and 2011:

	31 December 2012	31 December 2011
Discount rate (%)	2.60	4.66
Rate to estimate the probability of retirement (%)	0.98	0.98

Additionally, the principal actuarial assumption is that the maximum liability for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL3,129.25 in full TL amount, which is effective from 31 December 2012 (1 January 2012: TL2,805.04), has been taken into consideration in calculating the reserve for employment termination benefit of the Bank.

Movement in the reserve for employment termination benefits for the years ended 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
1 January	11,560	10,856
Charge for the year	2,510	813
Interest expense	538	506
Actuarial losses	1,118	531
Payments during the year	(3,286)	(1,146)
31 December	**12,440**	**11,560**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 17 - SHARE CAPITAL

The historical paid in share capital of the Bank is TL2,000,000 thousand (2011: TL2,000,000 thousand) and consists of 2 billion (2011: 2 billion) authorized shares with a nominal value of TL1 each.

	31 December 2012	31 December 2011
Share capital - historical cost	2,000,000	2,000,000
Adjustment to share capital	812,518	812,518
Total paid in share capital	**2,812,518**	**2,812,518**

The Bank is fully owned by Turkish Treasury.

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2005 after elimination of the accumulated deficit.

NOTE 18 - RETAINED EARNINGS AND RESERVES

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code and in accordance with the Articles of Association of the Bank, the Bank is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of 10% of the distribution of second dividend, in excess of the first legal reserve, appropriated at a rate of 5% and first dividend, appropriated at a rate of 8%.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 19 - NET INTEREST INCOME

	31 December 2012	31 December 2011
Interest income on:		
Interest on loans and advances to customers	467,415	231,230
Interest on trading financial assets	39,259	15,476
Interest on held to maturity investments	31,351	42,017
Interest on deposits with banks	22,239	22,052
Interest on interbank money market placements	13,014	1,847
Other interest income	459	737
Total interest income	**573,737**	**313,359**
Interest expense on:		
Interest on debt securities in issue	(90,785)	(8,248)
Interest on funds borrowed	(80,444)	(36,299)
Interest expense on money market transactions	(6,788)	(4,308)
Other interest expenses	(20)	(14)
Total interest expense	**(178,037)**	**(48,869)**
Net interest income	**395,700**	**264,490**

NOTE 20 - OTHER OPERATING INCOME

	31 December 2012	31 December 2011
Insurance premium income	43,305	34,380
Commission from reinsurance companies	9,499	9,041
Recoveries from non-performing loans (Note 8)	2,680	8,794
Other	2,786	1,188
Total	**58,270**	**53,403**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 21 - OPERATING EXPENSES

	31 December 2012	31 December 2011
Staff costs (*)	41,925	25,668
Premiums paid to reinsurance companies	26,844	23,465
Employment termination benefits and unused vacation provision expense	6,218	3,339
BRSA contribution expense	4,641	2,415
KOSGEB fee (**)	4,514	4,699
Research expenses	3,371	2,786
Rent expenses (***)	2,643	871
Taxes and duties expenses	1,740	1,026
Vehicle expenses	1,039	972
Depreciation and amortisation charges (Notes 10 and 11)	933	1,027
Other (****)	17,963	40,987
	111,831	**107,255**

(*) Pension contributions included in staff costs, amount to TL10,600 thousand and TL6,187 thousand for the years ending 31 December 2012 and 2011.

(**) As the Bank's more than 50% of the paid-in share capital is owned by the government entities, the Bank is obliged to pay annual fee at a rate of 2% of the corporate tax base of the Bank to Small and Medium Industries Development Organization ("KOSGEB") in accordance with the establishment law of KOSGEB.

(***) The bank moved Ankara Headquarters building it owned on 31 December 2012 to Istanbul and started to pay rent.

(****) Bank management has allocated bonus provision at an amount of TL30,000 thousand for the second half of 2008 and for the years 2009, 2010 and 2011 in which no bonus was paid to the employees, taking into account the cases that resulted in decisions against the Bank and made the payment of personnel bonus provision as of 31 December 2012 (Note 22).

NOTE 22 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the balance sheets, including letters of guarantee, other guarantees and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

Legal proceedings

At 31 December 2012, there are 73 legal proceedings outstanding against the Bank amounting to US$2,593,513 and TL700,288. As of 31 December 2012, Bank has not provided a provision for these legal proceedings, since possible outflow of resources embodying economic benefits to settle these contingent liabilities will be immaterial.

A number of the outstanding litigation cases in Turkish courts relate to employee bonus payments. In the second half of 2008, the Bank ceased paying bi-annual bonuses to its employees. As of 31 December 2012, 57 lawsuits were filed against the Bank by employees who retired after the change was implemented alleging that the Bank should have paid their bonuses. 17 of 56 cases opened by former employees of the Bank at Ankara's 15th Labour Court with regard to "bonus" payments resulted in decisions against the Bank by the end of 2012. Furthermore, the related decision was also confirmed by the Court of Appeals' the highest appellate court in Turkey for all these cases. The Bank made a payment of TL151 thousand with regard to the lost cases in 2012.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 22 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Bank management has allocated bonus provision at an amount of TL30,000 thousand for the second half of 2008 and for the years 2009, 2010 and 2011 in which no bonus was paid to the employees, taking into account the cases that resulted in decisions against the Bank and made the payment of personnel bonus provision as of 31 December 2012.

Commitments under derivative instruments:

The breakdown of swap transactions at 31 December 2012 and 2011 is as follows:

		31 December 2012		31 December 2011	
Transaction Type	**Currency**	**Foreign currency amount**	**TL 000**	**Foreign currency amount**	**TL 000**
Interest rate swap purchases	US$	1,036,000,000	1,847,292	21,000,000	40,196
	EUR	50,000,000	117,640	-	-
Foreign currency swap purchases	EUR	93,900,000	220,928	135,000,000	333,855
	TL	89,976,500	89,977	327,902,500	327,903
	JPY	-	-	271,705,000	6,698
Foreign currency forward purchases	US$	255,946,000	456,377	212,279,510	406,324
	TL	38,104,974	38,105	125,961,718	125,962
Cross currency swaps purchases	US$	140,000,000	249,634	-	-
Total purchases			**3,019,953**		**1,240,938**
Interest rate swap sales	US$	1,036,000,000	1,847,292	21,000,000	40,196
	EUR	50,000,000	117,640	-	-
Foreign currency swap sales	US$	50,000,000	89,155	357,046,630	683,423
	TL	221,578,465	221,578	-	-
Foreign currency forward sales	US$	21,070,000	37,570	66,717,100	127,703
	TL	469,614,051	469,614	397,260,801	397,261
Cross currency swaps sales	EUR	97,703,957	229,878	-	-
	TL	36,220,000	36,220	-	-
Total sales			**3,048,947**		**1,248,583**
			6,068,900		**2,489,521**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 22 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Maturity analysis of swap and forward transactions are as follows:

	31 December 2012				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 Years**	**Total**
Interest rate swap purchases	121,207	71,324	1,041,330	731,071	1,964,932
Foreign currency swap purchases	310,905	-	-	-	310,905
Forward foreign currency purchases	494,482	-	-	-	494,482
Cross currency swaps purchases	-	-	-	249,634	249,634
Total purchases	**926,594**	**71,324**	**1,041,330**	**980,705**	**3,019,953**
Interest rate swap sales	121,207	71,324	1,041,330	731,071	1,964,932
Foreign currency swap sales	310,733	-	-	-	310,733
Forward foreign currency sales	507,184	-	-	-	507,184
Cross currency swaps sales	-	-	-	266,098	266,098
Total sales	**939,124**	**71,324**	**1,041,330**	**997,169**	**3,048,947**

	31 December 2011				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Interest rate swap purchases	-	-	40,196	-	40,196
Foreign currency swap purchases	668,456	-	-	-	668,456
Forward foreign currency purchases	532,286	-	-	-	532,286
Total purchases	**1,200,742**	-	**40,196**	-	**1,240,938**
Interest rate swap sales	-	-	40,196	-	40,196
Foreign currency swap sales	683,423	-	-	-	683,423
Forward foreign currency sales	524,964	-	-	-	524,964
Total sales	**1,208,387**	-	**40,196**	-	**1,248,583**

The above tables summarize the Bank's derivative transactions that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date, in respective currencies. Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Bank with respect to commitments arising from these transactions.

Credit related commitments:

Letters of guarantee, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under these guarantees 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, since many of these commitments will expire or terminate without being funded.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 22 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The following table shows the outstanding credit related commitments of the Bank at 31 December 2012 and 2011:

	31 December 2012	31 December 2011
Financial guarantees		
Endorsements		
- Foreign currency	-	-
Other guarantees		
- Foreign currency (Note 3)	682,148	518,997
Total financial guarantees	**682,148**	**518,997**

The Bank provides cover for Turkish exporters, against credit risk by offering variety of programs.

NOTE 23 - SEGMENT ANALYSIS

The main segments of the Bank are corporate banking and investment banking. Investment banking includes the treasury operations of the Bank whereas corporate banking includes all operations other than treasury (mainly all of the credit operations), which is reported in manner consistent with the internal reporting provided to the chief operating decision maker, the Assistant General Manager of Finance. The analysis is as follows:

31 December 2012	Corporate Banking	Investment Banking	Unallocated	Total
Segment revenue	820,609	125,151	-	945,760
Segment expenses	(683,766)	(115)	(40,690)	(724,571)
Net profit	**136,843**	**125,036**	**(40,690)**	**221,189**
Interest income	499,225	74,512	-	573,737
Interest expense	(178,038)	-	-	(178,038)
Depreciation and amortisation	-	-	933	933
Impairment charges on loans	(60,787)	-	-	(60,787)
Capital expenditures	**11,733**	**-**	**-**	**11,733**
Total segment assets	**13,279,958**	**7,730,198**	**(5,738,470)**	**15,271,686**
Segment liabilities	11,564,680	-	30,841	11,595,521
Equity	-	10,282	3,665,883	3,676,165
Total liabilities and equity	**11,564,680**	**10,282**	**3,696,724**	**15,271,686**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 23 - SEGMENT ANALYSIS (Continued)

31 December 2011	Corporate Banking	Investment Banking	Unallocated	Total
Segment revenue	757,393	70,700	-	828,093
Segment expenses	(450,485)	(124,539)	(22,791)	(597,815)
Net profit	**306,908**	**(53,839)**	**(22,791)**	**230,278**
Interest income	273,984	39,375	-	313,359
Interest expense	(48,869)	-	-	(48,869)
Depreciation and amortisation	-	-	(1,027)	(1,027)
Impairment charges on loans	(18,413)	-	-	(18,413)
Capital expenditures	**2,795**	**-**	**-**	**2,795**
Total segment assets	**8,065,279**	**1,517,865**	**-**	**9,583,144**
Segment liabilities	5,878,463	-	56,621	5,935,084
Equity	-	3,630	3,644,430	3,648,060
Total liabilities and equity	**5,878,463**	**3,630**	**3,701,051**	**9,583,144**

Reconciliation of segment results of operations to consolidated results of operations.

31 December 2012	Corporate Banking	Investment Banking	Unallocated	Total
Interest income	499,225	74,512	-	573,737
Fee and commissions income	4,713	255	-	4,968
Foreign exchange gain	291,500	-	-	291,500
Other operating income	25,170	33,100	-	58,270
Losses on financial instruments classified as held for trading, net	-	17,285	-	17,285
Total segment revenue	**820,608**	**125,152**	**-**	**945,760**

31 December 2012	Corporate Banking	Investment Banking	Unallocated	Total
Interest expense	(178,037)	-	-	(178,037)
Fee and commissions expense	(6,150)	-	-	(6,150)
Impairment charges on loans	(60,787)	-	-	(60,787)
Foreign exchange losses	(367,766)	-	-	(367,766)
Operating expense	(71,027)	(114)	(40,690)	(111,831)
Total segment expense	**(683,767)**	**(114)**	**(40,690)**	**(724,571)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 23 - SEGMENT ANALYSIS (Continued)

31 December 2011	Corporate Banking	Investment Banking	Unallocated	Total
Interest income	273,984	39,375	-	313,359
Fee and commissions income	5,658	208	-	5,866
Foreign exchange gain	455,465	-	-	455,465
Other operating income	22,286	31,117	-	53,403
Total segment revenue	**757,393**	**70,700**	**-**	**828,093**

31 December 2011	Corporate Banking	Investment Banking	Unallocated	Total
Interest expense	(48,869)	-	-	(48,869)
Fee and commissions expense	(6,081)	-	-	(6,081)
Impairment charges on loans	(18,413)	-	-	(18,413)
Foreign exchange losses	(292,967)	-	-	(292,967)
Losses on financial instruments classified as held for trading, net	-	(124,230)	-	(124,230)
Other operating expense	(84,155)	(309)	(22,791)	(107,255)
Total segment expense	**(450,485)**	**(124,539)**	**(22,791)**	**(597,815)**

NOTE 24 - RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. For the purpose of this financial information the shareholders of the Bank together with state-controlled entities in Turkey are considered and referred to as related parties. Other related parties refer to entities controlled, jointly controlled or having significance influence by the Turkish Government.

A number of banking transactions were entered into with related parties in the normal course of business.

(a) Balances with related parties:

	31 December 2012	31 December 2011
Due from banks:		
- Other related parties [1]	129,247	246,109
Loans and advances to customers:		
- Other related parties [2]	781,527	693,452
Trading securities:		
- Shareholder [3]	483,571	342,935
Investment securities ("Held to maturity")		
- Shareholder [4]	300,349	511,436
Funds borrowed		
- Other related parties [5]	7,072,719	3,556,380
Other liabilities		
- Other related parties	45	103

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 24 - RELATED PARTIES (Continued)

(1) Average interest rate for due from banks is 2.07% (2011: 4.78%)
(2) Average interest rate for loans and advances to customers is 5.43% (2011: 5.19%)
(3) Average interest rate for trading securities is 8% (2011: 8%)
(4) Average interest rate for investment securities is 9.5% (2011: 7.9%)
(5) Average interest rate for funds borrowed is 0.96% (2011: 1.22%)

(b) Transactions with related parties:

	31 December 2012	31 December 2011
Interest income on investment and trading securities:		
- Shareholder	70,610	57,493
Interest income on loans and advances to customers:		
- Other related parties	34,464	25,758
Interest expense on funds borrowed:		
- Other related parties	37,919	15,554
Operating expenses (taxes paid)		
-Other related parties	36,317	10,665

(c) Remuneration of key management personnel:

	31 December 2012	31 December 2011
Salaries and other short-term employee benefits	910	808
Post employment benefits	199	259

NOTE 25 - SUBSEQUENT EVENTS

None.

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