Near East Bank Limited
And its Subsidiary

Consolidated financial statements
as at and for the year ended
December 31, 2012

Independent Auditor's Report

To the Board of Directors of
Near East Bank Limited
Turkish Republic of Northern Cyprus

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Near East Bank Limited (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2012 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Istanbul, November 28, 2013

NEAR EAST BANK LIMITED
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2012
Amounts expressed in Turkish Lira (TL) unless otherwise stated

	Notes	12 month period ended December 31, 2012	December 31, 2011
Interest income	6	36,376,967	32,243,177
Interest expenses	6	(22,010,966)	(16,908,404)
Net interest income		**14,366,001**	**15,334,773**
Fee and commission income	7	1,490,963	967,459
Fee and commission expenses	7	(40,168)	(59,355)
Net fee and commission income		**1,450,795**	**908,104**
Share of profit of associates		187,877	80,375
Net trading income and results from investment securities	8	2,740,253	4,130,028
Other operating income	9	621,462	742,992
Total operating income		**19,366,388**	**21,196,272**
Personnel expenses	10	(8,937,967)	(4,663,519)
General and administrative expenses	12	(2,655,685)	(2,726,321)
Depreciation expense	13	(568,844)	(279,246)
Impairment losses / (reversals) on loans	14	(817,325)	567,467
Other operating expenses	15	(2,890,436)	(2,424,513)
Profit before tax		**3,496,131**	**11,670,140**
Income tax expense	16	(467,760)	(1,998,148)
Profit for the year		**3,028,371**	**9,671,992**
Attributable to:			
Equity holders of the Parent		2,929,847	9,588,571
Non-controlling interest		98,524	83,421

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

NEAR EAST BANK LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
Amounts expressed in Turkish Lira (TL) unless otherwise stated

		12 month period ended	
		December 31, 2012	**December 31, 2011**
Profit for the year	**Notes**	**3,028,371**	**9,671,992**
Other comprehensive income			
Net change in available-for-sale investments reserve	35	61,272	52,311
Gains on revaluation of property		3,273,991	-
Income tax relating to components of other comprehensive income	27	**(783,787)**	**(12,293)**
Other comprehensive income for the year, net of tax		**2,551,476**	**40,018**
Total comprehensive income for the year		**5,579,847**	**9,712,010**
Total comprehensive income attributable to:			
Equity holders of the Parent		5,481,323	9,628,589
Non-controlling interests		98,524	83,421

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

NEAR EAST BANK LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012
Amounts expressed in Turkish Lira (TL) unless otherwise stated

	Notes	December 31, 2012	December 31, 2011	January 1, 2011
ASSETS				
Cash and balances with TRNC Central Bank	17	67,194,430	48,804,036	37,494,339
Due from banks	18	20,866,612	14,486,109	21,156,141
Financial assets at fair value through profit or loss	19	-	69,622	61,828
Derivative financial assets	20	176,190	155,000	-
Loans and advances to customers	21	258,386,019	202,624,028	154,315,551
Available for sale investments	22	6,132,452	6,178,568	-
Held to maturity investments	23	6,103,595	5,173,036	4,506,917
Investments in associates		468,676	280,799	200,424
Property and equipment	26	16,980,606	11,513,609	5,228,701
Investment properties	24	2,762,426	2,282,272	2,111,199
Asset held for sale	25	3,059,126	2,227,025	2,227,025
Other assets	28	4,076,127	4,696,906	3,463,219
Total assets		**386,206,259**	**298,491,010**	**230,765,344**
LIABILITIES				
Due to other banks	29	1,404,000	2,354,940	476,978
Customer deposits	30	323,182,145	247,121,153	194,293,480
Current tax liabilities	16	14,903	1,257,725	31,158
Deferred tax liabilities	27	1,708,887	886,974	148,971
Other liabilities	31	12,638,041	5,191,782	3,848,331
Total liabilities		**338,947,976**	**256,812,574**	**198,798,918**
EQUITY				
Share capital issued	33	41,842,271	34,709,553	34,709,553
Available for sale investments reserve, net of tax	35	86,891	40,018	-
Revaluation fund		2,504,603	-	-
Reserves and retained earnings	34	1,843,651	6,046,522	(3,542,049)
Equity attributable to owners of the Group		**46,277,416**	**40,796,093**	**31,167,504**
Non-controlling interest		980,867	882,343	798,922
Total equity		**47,258,283**	**41,678,436**	**31,966,426**
Total liabilities and equity		**386,206,259**	**298,491,010**	**230,765,344**

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

NEAR EAST BANK LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012
Amounts expressed in Turkish Lira (TL) unless otherwise stated

	Share capital	Available for sale investments reserve	Revaluation fund	Reserves and retained earnings	Equity attributable to owners of the Group	Non-controlling interest	Total
Balance at January 1, 2011	**34,709,553**	**-**	**-**	**(3,542,049)**	**31,167,504**	**798,922**	**31,966,426**
Profit for the year	-	-	-	9,588,571	**9,588,571**	83,421	**9,671,992**
Other comprehensive income for the year, net of tax	-	40,018	-	-	**40,018**	-	**40,018**
Balance at December 31, 2011	**34,709,553**	**40,018**	**-**	**6,046,522**	**40,796,093**	**882,343**	**41,678,436**
Balance at January 1, 2012	**34,709,553**	**40,018**	**-**	**6,046,522**	**40,796,093**	**882,343**	**41,678,436**
Capital increase	7,132,718	-	-	(7,132,718)	**-**	**-**	**-**
Profit for the year	-	-	-	2,929,847	**2,929,847**	98,524	**3,028,371**
Other comprehensive income for the year, net of tax	-	46,873	2,504,603	-	**2,551,476**	-	**2,551,476**
Balance at December 31, 2012	**41,842,271**	**86,891**	**2,504,603**	**1,843,651**	**46,277,416**	**980,867**	**47,258,283**

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

NEAR EAST BANK LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
Amounts expressed in Turkish Lira (TL) unless otherwise stated

		12 month period ended December 31,	
Cash flows from operating activities		**2012**	**2011**
Interest received		36,517,745	32,206,462
Interest paid		(22,447,905)	(16,918,567)
Fee and commission received		1,490,963	967,459
Trading income		2,719,063	3,975,028
Recoveries from previously impaired loans		2,512,641	730,117
Fee and commission paid		(40,168)	(59,355)
Cash payments to employees		(8,937,967)	(4,663,519)
Cash received from other operating activities		621,462	554,287
General and administrative expenses		(2,655,685)	(2,726,321)
Cash paid for other operating activities		(2,988,241)	(2,055,183)
Income taxes paid		(1,318,150)	(130,060)
Cash flows from operating activities before changes in operating assets and liabilities		**5,473,758**	**11,880,348**
Changes in operating assets and liabilities			
Due from banks		(5,729,493)	(3,043,853)
Loans and advances to customers		(59,087,515)	(48,469,430)
Other assets		(211,320)	(1,233,687)
Due to banks		(950,940)	1,877,962
Customer deposits		76,497,931	52,837,836
Other liabilities		6,964,023	1,058,310
Net cash provided from operating activities		**22,956,444**	**14,907,486**
Cash flows from investing activities			
Purchases of held to maturity securities	23	(5,407,089)	(4,431,034)
Purchases of available for sale securities		-	(6,125,304)
Purchases of property and equipment	26	(2,794,378)	(6,583,657)
Proceeds from available for sale securities		-	-
Proceeds from held to maturity securities	23	4,431,033	3,902,686
Proceeds from the sale of property and equipment		32,528	37,135
Purchases of investment property	24	(254,421)	-
Net cash (used in) investing activities		**(3,992,327)**	**(13,200,174)**
Cash flows from financing activities			
Proceeds / (payments)from / to funds borrowed		-	-
Net cash provided by financing activities		-	-
Net increase in cash and cash equivalents		18,964,117	1,707,312
Cash and cash equivalents at the beginning of the year	36	43,923,998	42,216,686
Cash and cash equivalents at the end of the year	36	**62,888,115**	**43,923,998**

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

Amounts expressed in Turkish Lira (TL) unless otherwise stated

1 General information

Near East Bank ("the Bank") was established in 1996 as part of the Yakın Doğu Group in Turkish Republic of Northern Cyprus ("TRNC"). The registered address of the Bank is at 1, Girne Caddesi, Lefkoşa, TRNC.

The Bank's main shareholder is Near East Univesity Ltd. The Bank's and its main shareholder's ultimate shareholder is Yakın Doğu Group. Yakın Doğu Group operates in sectors of education, finance, health and tourism as one of the largest private institution of TRNC with more than 5,000 employees.

The accompanying consolidated financial statements of the Bank for the year ended December 31, 2012 comprise the Bank and its subsidiary and associate (together referred to as the "Group") listed in note 38.

Nature of Activities of the Bank / Group

The Group's activities include corporate and commercial banking, treasury, retail banking and credit card operations. The Bank operates through a headquarter and a total of 12 domestic branches (2011: 10 branches).

The Board of Directors consists of the following members:

Executive Members	**Title**
Dr. Suat İrfan Günsel	Chairman- Executive Member
Dr. İrfan Suat Günsel	Vice Chairman- Executive Member
Kozan Karakurt	Chief Executive Officer-Executive Member
Ali Malek	Chairman of Internal Control System- Executive Member
Selçuk Burat	Executive Member
Kazım Olgu	Executive Member

These financial statements have been approved for issue by the Bank's Board of Directors on November 28, 2013.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention except for property and equipment that measured at fair value, investment property that measured at fair value financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss and available-for-sale investments.

The consolidated financial statements are presented in Turkish Lira ("TL").

The Bank and its subsidiary which are incorporated in TRNC, maintain their books of accounts and prepare their statutory financial statements in TL in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Republic of Northern Cyprus Banking Law and accounting standards promulgated by the TRNC Central Bank and TRNC tax legislation.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities and impairment of loans and receivables. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The financial statements of the Group for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 *Financial Reporting in Hyperinflationary Economies*. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

Comparative Information

In order to give accurate trend analysis regarding the financial position and performance of the Group, the consolidated balance sheet as of December 31, 2012 is comparatively presented with balance sheet as of December 31, 2011 and January 1, 2011 and the consolidated statements of comprehensive income, cash flows and changes in equity for the year ended December 31, 2012 are comparatively presented with the consolidated statements of comprehensive income, cash flows and changes in equity for the year ended December 31, 2011.

Where necessary, comparative figures have been reclassified to conform to the presentation of the current year consolidated financial statements.

2 Summary of significant accounting policies (cont'd)

2.2 Adoption of International Financial Reporting Standards (IFRS)

2.2.1 New and Revised IFRSs affecting presentation and disclosure only

None.

2.2.2 New and Revised IFRSs affecting the reported financial performance and / or financial position

None.

2.2.3 New and Revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 7 *Disclosures - Transfers of Financial Assets*

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The amendments to IFRS 7 did not have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

Amendments to IAS 12 *Deferred Taxes – Recovery of Underlying Assets*

The amendment is effective for annual periods beginning on or after January 1, 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The amendment did not have any material effect on the consolidated financial statements.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

2 Summary of significant accounting policies (cont'd)

2.2 Adoption of International Financial Reporting Standards (IFRS) (cont'd)

2.2.4 New and Revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*[1]
Amendments to IAS 1	*Clarification of the Requirements for Comparative Information*[2]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[3]
IFRS 11	*Joint Arrangements*[3]
IFRS 12	*Disclosure of Interests in Other Entities*[3]
IFRS 13	*Fair Value Measurement*[3]
Amendments to IFRS 7	*Disclosures – Offsetting Financial Assets and Financial Liabilities*[3]
Amendments to IFRS 9 and IFRS 7	*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[5]
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide*[3]
IAS 19 (as revised in 2011)	*Employee Benefits*[3]
IAS 27 (as revised in 2011)	*Separate Financial Statements*[3]
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[3]
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*[4]
Amendments to IFRSs	*Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1*[3]

[1] Effective for annual periods beginning on or after July 1, 2012.
[2] Effective for annual periods beginning on or after 1 January 2013 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012.
[3] Effective for annual periods beginning on or after January 1, 2013.
[4] Effective for annual periods beginning on or after January 1, 2014.
[5] Effective for annual periods beginning on or after January 1, 2015.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* is effective for the annual periods beginning on or after July 1, 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to and IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2 Summary of significant accounting policies (cont'd)

2.2 Adoption of International Financial Reporting Standards (IFRS) (cont'd)

2.2.4 New and Revised IFRSs in issue but not yet effective (cont'd)

Amendments to IAS 1 *Presentation of Financial Statements*
(as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012)

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after January 1, 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

  With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

2 Summary of significant accounting policies (cont'd)

2.2 Adoption of International Financial Reporting Standards (IFRS) (cont'd)

2.2.4 New and Revised IFRSs in issue but not yet effective (cont'd)

IFRS 9 *Financial Instruments (cont'd)*

> Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted provided all of these standards are applied at the same time. The Group management anticipates that the application of these five standards will not have an impact on amounts reported in the consolidated financial statements.

2 Summary of significant accounting policies (cont'd)

2.2 Adoption of International Financial Reporting Standards (IFRS) (cont'd)

2.2.4 New and Revised IFRSs in issue but not yet effective (cont'd)

IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and the related disclosures*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after January 1, 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

2 Summary of significant accounting policies (cont'd)

2.2 Adoption of International Financial Reporting Standards (IFRS) (cont'd)

2.2.4 New and Revised IFRSs in issue but not yet effective (cont'd)

IAS 19 *Employee Benefits*

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application.

The Group management anticipates that IAS 19(2011) will be adopted in the Group's financial statements for the annual period beginning on January 1, 2013 and these amendments will not have an impact on its profit or loss or financial position.

***Annual Improvements to IFRSs 2009 - 2011 Cycle* issued in May 2012**

The Annual Improvements to IFRSs 2009 - 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and

- Amendments to IAS 32 *Financial Instruments: Presentation*.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's financial statements.

2 Summary of significant accounting policies (cont'd)

2.3 Consolidation

2.3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiary, which is an entity controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses and other comprehensive income of subsidiary acquired or disposed of during the year are included in the consolidated statements of income and in the consolidated statement of comprehensive income, respectively, from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit for the period and total comprehensive income of the subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiary and the associate to bring their accounting policies into line with those of the Group.

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

2.3.2 Non-controlling interests

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.3.3 Investment in associate

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent

2 Summary of significant accounting policies (cont'd)

2.3 Consolidation (cont'd)

2.3.3 Investment in associate (cont'd)

that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

2 Summary of significant accounting policies (cont'd)

2.4 Foreign currency transactions

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements of the Group are presented in thousands of TL, which is the functional currency of the Bank.

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on debt securities and other monetary financial assets re-measured at fair value are included in net trading income and results from investment securities. Translation differences on non-monetary financial assets are a component of the change in their fair value and are recognized in the income statement for equity securities held for trading, or in other comprehensive income for equity securities classified as available for sale investment securities. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

Foreign currency translation rates used by the Group as of December 31, 2012, 2011 and January 1, 2011 are as follows:

	USD / TL	EUR / TL	GBP / TL
December 31, 2012	1.781	2.340	2.872
December 31, 2011	1.890	2.440	2.920
January 1, 2011	1.533	2.048	2.367

2 Summary of significant accounting policies (cont'd)

2.5 Regular way purchases and sales

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized on the settlement date apart from trading and investment securities and derivative instruments, which are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset.

2.6 Derivative financial instruments

Derivative financial instruments including forward rate agreements are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Derivatives are presented in assets when favorable to the Group and in liabilities when unfavorable to the Group. Where the Group enters into derivative instruments used for trading purposes, realized and unrealized gains and losses are recognized in the income statement.

Certain derivative instruments transacted as effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held for trading purposes.

2.7 Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when, and only when there is a legally enforceable right to offset the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously or on a net basis.

2.8 Interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, due from banks and accrued discount and premium on bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring a security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9 Fees and commissions

Fee and commission income is generally recognized on an accrual basis over the period the service is provided. Commission and fee arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. The fee and commissions paid to other institutions are considered as transaction cost and included in the amortized cost by using internal rate of return method.

2 Summary of significant accounting policies (cont'd)

2.10 Financial assets and liabilities at fair value through profit or loss ("FVTPL")

This category has the following two sub-categories:

- Trading and
- Financial assets and liabilities designated at fair value through profit or loss.

2.10.1 Trading

The trading category includes securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists, and derivatives unless they are designated as and are effective hedging instruments.

2.10.2 Financial assets and liabilities designated at fair value through profit or loss

The Group designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the Board of Directors and Chief Executive Officer. The fair value designation, once made, is irrevocable.

2.10.3 Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in net trading income and results from investment securities.

Interest income generated from financial assets are recognized under net interest income in the income statement.

Dividend income is recognized in the income statement when the right to receive payment is established. This is the ex-dividend date for equity securities and is separately reported and included in dividend income.

The amount of change during the period, and cumulatively, in the fair values of designated loans and advances to customers that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

2 Summary of significant accounting policies (cont'd)

2.11 Available for sale investments

Available for sale investments are initially recognized at fair value (including transaction costs) and subsequent to initial recognition are measured at fair value. Unquoted equity instruments whose fair value cannot be reliably estimated are carried at cost. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

Available for sale investment securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. When an available for sale investment security is disposed of or impaired, the accumulated unrealised gain or loss included in other comprehensive income is transferred to the income statement for the period and reported as gains / losses from investment securities.

Impairment: The Group assesses at each reporting date whether there is objective evidence that an available for sale investment security or a group of such securities is impaired.

Particularly for equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement) is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Interest earned while holding investment securities is reported as interest income.

Dividend income is recognized when the right to receive payment is established (the ex-dividend date) for equity securities and is separately reported and included in dividend income.

2.12 Held to maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

2 Summary of significant accounting policies (cont'd)

2.13 Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, where money is provided directly to the borrower.

Loans originated by the Group are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are designated as at "fair value through profit or loss" (see Note 2.11.2).

2.14 Impairment losses on loans and advances to customers

The Group assesses at each reporting date whether there is objective evidence that a loan, or a group of loans is impaired.

A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan (or group of loans) that can be reliably estimated.

An allowance for impairment is established if there is objective evidence that the Group will be unable to collect all amounts due according to the original contractual terms.

Objective evidence that a loan (or group of loans) is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;

(c) The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) The disappearance of an active market for that financial asset because of financial difficulties; or

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

   i. adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or

   ii. national or local economic conditions that correlate with defaults on the assets in the group.

2 Summary of significant accounting policies (cont'd)

2.14 Impairment losses on loans and advances to customers (cont'd)

The impairment loss is reported through the use of an allowance account on the statement of financial position. Additions to impairment losses are made through impairment losses on loans and advances to customers, finance lease receivables, factoring receivables and other impariment charges in the income statement.

The Group assesses whether objective evidence of impairment exists individually for loans that are considered individually significant and individually or collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Loans and advances to customers are grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not currently exist.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in impairment losses on loans and advances to customers, finance lease receivables, factoring receivables and other impariment charges in the income statement.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

2 Summary of significant accounting policies (cont'd)

2.15 Renegotiated loans

Once the terms of a loan have been renegotiated, after a review at a minimum six months, and the minimum amount of payments has been made and all other conditions required under the new arrangement have been fulfilled, the loan is no longer considered past due. The Group continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

2.16 Financial liabilities and equity

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

2.17 Derecognition

2.17.1 Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 Summary of significant accounting policies (cont'd)

2.17 Derecognition (cont'd)

2.17.2 Financial liabilities

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

2.18 Fair value of financial instruments

The Group measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices; loans and advances to customers which are classified at fair value through profit or loss and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

2 Summary of significant accounting policies (cont'd)

2.19 Property and equipment

Land and buildings held for use for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation since 1 January 2012 as presented in Note 26, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value at the date of revaluation is the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. Fair value determination is based on the market and cost approaches using quoted market prices for similar items when available and in some cases, using replacement cost when appropriate. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course for administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated. Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Land	No depreciation
Buildings and land improvements	50 years
Furniture and fixtures	3-10 years
Machinery and equipment	3-10 years
Vehicles	3-7 years
Leasehold improvements	Over the term of respective leases

Expenses for repairs and maintenance are charged to expenses as incurred.

2 Summary of significant accounting policies (cont'd)

2.20 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

The Group's investment properties are valued by external, independent appraisal companies on a periodic basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. In the absence of available current prices in an active market, the valuations are based on estimated cash flows expected to be received. In arriving at an estimate, the Group considers its occupancy rate, lease commitment factors and the economic life of the investment property.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

2.21 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, unrestricted balances held with central banks, amounts due from other banks and highly liquid financial assets with original maturities of less than three months from the date of acquisition such as treasury bills and other eligible bills, investment and trading securities which are subject to insignificant risk of changes to fair value and are used by the Group in the management of its short-term commitments.

2.22 Provisions

Provisions are recognized when the Group 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement recognized.

2 Summary of significant accounting policies (cont'd)

2.23 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the best estimate of the amount required to settle the guarantee at the reporting date.

2.24 Income taxes

Tax charge (benefit) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

a. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

b. Deferred tax

Deferred tax is fully provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2 Summary of significant accounting policies (cont'd)

2.24 Income taxes (cont'd)

b. Deferred tax (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items which are recognized in other comprehensive income is also recognized in other comprehensive income. Such deferred tax is subsequently recognized in the income statement together with the deferred gain or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

2.25 Interest bearing deposits and borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. Interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

2.26 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

2.27 Related party transactions

Related parties include entities, which the Group has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, their close relatives, companies owned or controlled by them and companies over which they can influence the financial and operating policies. All banking transactions entered into with related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

2.28 Earnings per share

According to IAS 33 "Earnings per Share", companies, whose equity shares are not traded on stock exchanges, are not required to disclose earnings per share. The Group did not calculate earnings per share in the accompanying consolidated financial statements, since the Group's shares are not traded on the stock exchange.

2 Summary of significant accounting policies (cont'd)

2.29 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3 Critical judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. The Group believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate given the factual circumstances as of December 31, 2012.

The most significant area, for which judgments, estimates and assumptions are required in applying the Group's accounting policies, is the following:

Allowances for loan losses

The amount of the allowance for impairment of loans and advances to customers is based upon management's ongoing assessments of the probable estimated losses inherent in the loan portfolios. Assessments are conducted by members of management responsible for various types of loans employing a methodology and guidelines, which are continually monitored and improved.

This methodology has two primary components: individual and collective impairment assessments, as described in Note 2.14.

Applying this methodology requires management to make estimates regarding the amount and timing of the cash flows, which are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in favor of the Group. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed.

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 both to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances and provisions depends on the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, management believes that the allowances and provisions are reasonable and supportable.

4 Financial risk management

4.1 Risk management governance

The Group's Risk Management Department is responsible for monitoring and managing all potential risks for the Group in a centralized and efficiently coordinated manner. The primary goal of the Group's Risk Management Department is to provide business lines with appropriate capital allocation (economic capital) for risks they are exposed to.

The Group aims to adopt practices regarding risk management governance, taking into account all relevant guidelines and regulatory requirements, which are 39/2001 numbered regulation "Banking Law", 41/2001 numbered regulation "Central Bank of TRNC Law" and the Bank's own risk management regulations.

4.1.1 Group risk management department

The implementation of risk management regulations is the responsibility of Risk Management Group and the governance of regulations and the department is in the responsibility of the Board of Directors. The Risk Management Group seeks to protect the Group against unforeseen losses and to maintain earnings stability. Therefore it monitors the quality and level of activities and changes the policies if necessary by the policies, procedures and limits. The Risk Management Department prepares following reports monthly in order to monitor and manage the financial risk.

- Asset Liability Management Report
- Country Risk Report
- Credit Risk Report
- Market Risk Report
- Liquidity Risk Report

4.1.2 Asset and liability management

The report of asset - liability presents analyzes under the criteria set out below;

- Interest Sensitive Assets' (ISA) Volume and Term Change
- Interest Sensitive Liabilities' (ISL) Volume and Term Change
- Interest Margin Rate and Quartely Change
- ISA return structure, ISL cost and Quarterly Change
- Percentage Method Analysis
- Ratio and Sector Analysis

In the structure of analysis, interest sensitive assets and liabilites and their return structures are monitored. Additionally, with the percentage method, items' weights are determined over the total assets and total liabilities in the balance sheet of the Group. The determined ratios are compared with the banking sector analysis in the final stage.

4 Financial risk management (cont'd)

4.1 Risk management governance (cont'd)

4.1.3 Country risk management

In accordance with the law numbered 39/2001, which is "The Purpose of the Risk System", country risk and transfer risks are analyzed. In this context, the main points are analyzed below;

- Country and Currency Risks
- Country Risk's Imposed Weighted Ratio at Equity and Total Assets
- Country Economic Profile and Macro-Economic Analysis
- Weighted Distribution of Transfer Risk and Country

4.2 Credit risk

Credit risk represents the risk arising from the counterparty not fulfilling its responsibilities stated in the agreement either partially or totally. The Credit Risk Committees and Credit Divisions are responsible for managing credit risk of the Group. The Risk Management Department determines the procedures in monitor and evaluation of credit risk with Credit Risk Department. Risk Department is responsible from preparation and upgrade of credit risk evaluation methods and models; implementation of stress testing related to credit risk; evaluation of credit risk arising from counter parties of financial instruments that practiced by Treasury Department and historical testing of models.

The Group prepares two types of reports in order to measure credit risk; Legal Risk Report and Credit Risk Report. The details of these reports are as follows;

Legal Risk Report

Credit risk and legal limits are valued by using the principles and procedures for determining the limits of risk and consideration rates of credit operations that stated under the 39/2001 numbered law's 23rd article. According to the law, cash loans, letter of guarantees, non-cash loans such as bails, bills of exchange, endorsement, acceptances; bonds and othe related capital market instruments; loans given by depositing money or any other forms; receivables arising from the sale of assets; amounts overdue cash loans and non-cash loans; forward and options contracts and other contracts, and the share of partnership are considered as credit risk. The analysises and the assessments appear in the legal risk report are as follows:

- Limit Analysis of Loans and Other Investments
- Regulatory Ratio Analysis
- Assessment of Capital Adequacy Ratio
- Assessment of Liquidity Ratio

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.2 Credit risk (cont'd)

Credit Risk Report

The Banking Law numbered 39/2001 targets determine credit risk limits' measurement, evaluation and control which is a subject of. In this context the following main points are analyzed;

- Credit Volume and Size
- Type and Concentration of Loans
- Distribution of Loans by Sector
- Volume and Sector Distribution of Non-Performing Loans
- Watch-list Loans
- Major Loan Risk and Limits
- Balance of Risk and Guarantees
- Classification of Loan Risk Groups
- Amount of Overdue Loans and its Periodic Progress
- Limit Run-Outs and its Periodic Progress Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements, without taking into account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

Gross maximum exposure	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
TRNC Central Bank	42,158,415	29,495,293	21,185,575
Due from banks	20,866,612	14,486,109	21,156,141
Available for sale investments	6,132,452	6,178,568	-
Held to maturity investments	6,103,595	5,173,036	4,506,917
Trading securities	-	69,622	61,828
Derivative financial assets	176,190	155,000	-
Loans and advances to customers	258,386,019	202,624,028	154,315,551
Other assets	4,076,127	4,696,906	3,463,219
Total	**337,899,410**	**262,878,562**	**204,689,231**
Contingent liabilities	12,358,559	12,465,584	13,929,553
Commitments	21,021,000	22,694,350	19,451,670
Total	**33,379,559**	**35,159,934**	**33,381,223**
Total credit risk exposure	**371,278,969**	**298,038,496**	**238,070,454**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.2 Credit risk (cont'd)

4.2.1 Credit risk by industry sector

An industry sector analysis of the Group's loans and advances to customers are as follows:

Industry sector	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Private individuals	68,676,351	30,836,356	22,303,951
Construction	35,289,731	34,444,455	27,147,313
Electricity	19,684,970	10,326,104	12,528,780
Education	19,072,697	94,666	172,328
Other service industry	17,580,971	11,879,291	7,795,067
Agricultural	8,840,696	11,289,702	8,547,812
Financial industry	8,163,104	25,811,162	4,553,089
Machine and equipment industry	7,908,365	2,581,219	2,093,775
Transportation	7,869,188	8,172,043	8,065,135
Food industry	6,225,568	7,785,919	6,470,887
Furniture industry	5,636,777	6,727,149	5,423,055
Woodcraft	3,868,850	5,790,306	7,316,903
Manufacturing	3,563,609	2,102,024	103,274
Credit cards	3,076,994	2,483,522	1,730,514
Agency	2,095,160	1,036,250	365,298
Computer and related services	1,669,944	737,468	579,194
Tourism	981,894	82,798	588,269
Health and social services	805,220	1,181,279	1,534,656
Beverage industry	627,813	-	-
Petroleum	561,774	8,960,899	6,251,203
Textile	456,422	294,680	114,721
Chemicals	318,348	286,976	179,240
Metal industry	242,417	232,623	183,805
Other	13,076,243	1,973,138	1,093,809
Net non-performing loans	22,092,913	27,513,999	29,173,473
Total	**258,386,019**	**202,624,028**	**154,315,551**

4 Financial risk management (cont'd)

4.3 Market risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity and bond prices and foreign exchange rates) and their levels of volatility. The Group has defined its risk management procedures and has taken necessary precautions in order to avoid market risks, in compliance with "Regulation of Banks' Internal Audit, Risk Management, Internal Control and Management" published in 151 numbered gazette on August 12, 2008 and "Regulation of the change in the regulation of Banks' Internal Audit, Risk Management, Internal Control and Management" and "Regulation of Principles and Procedures on Measurement and Assessment of Capital Adequacy of Banks" published in 47 numbered gazette on March 4, 2009. In this context, the market risk is the aggregate of the general market risk, interest rate risk and currency risk and specific market risk. Standard method risk measurement model is used in order to take necessary precautions related with regulations. Market risk report is analyzed in the light of contents listed below;

- Value at Market Risk
- Risk Weighted Assets and Role of Market
- Interest Rate Risk
- Type of Interest Sensitive Assets and Distribution of Returns
- Interest Rate Scenario Analysis
- Interest Rate Risk Assessment According to Standard Method
- Foreign Exchange Risk
- Currency Risk Assessment with Standard Method
- Currency Risk Stress Testing and Scenario Analysis

Interest rate risk is the risk related to the potential loss on the Group's portfolio due to adverse movements in the interest rates. A principal source of interest rate risk exposure arises from the Group's all financial instruments that have rate of return, such as securities, repurchase agreements, forwards.

Foreign exchange risk is the risk related to the potential loss due to adverse movements in foreign exchange rates. The foreign exchange risk derives from the Group's Open Currency Position ("OCP").

4.3.1 Value at market risk

In accordance with the Banking Law numbered 39/2001 and Central Bank law numbered 41/2001, the risk analysis and measurement methods is in line with Basel I implementation. Therefore, calculations of Value at Risk are performed by standard method. Thus, value at exposed to credit risk, value at interest rate risk, value at currency risk, value at market risk, value at operational risk is determined and also the capital adequacy ratio is determined. Secondly, value at risk calculations are performed by the ratio of country risk and liquidity gap in maturity to total assets and equity. On the other hand, risk surveys, risk matrix and risk assessment report which are used in the TRNC Central Bank final report to measure the risk profile of the Bank, be intended for ensure compliance to the scope of Basel II. However, applications are not mandatory yet.

4 Financial risk management (cont'd)

4.3 Market risk (cont'd)

4.3.2 Interest rate risk

Interest rate risk in the banking book is the current or prospective risk to earnings (net interest income) and capital due to adverse movements in interest rates affecting the banking book positions. Exposure to interest rate risk in the banking book arises from re-pricing mismatches between assets and liabilities. The Group's banking book mainly consists of loans and advances to customers, cash and balances with central banks, amounts due from banks, customer deposits, amounts due to banks that are measured at amortized cost. According to the "Regulation of Principles and Procedures on Measurement and Assessment of Capital Adequacy of Banks" which was published on August 9, 2007 and the official gazette numbered 144, the 3rd section which is "Calculation of Market Risk", capital requirement is calculated by using standard method in order to measure general market risk of financial instruments that correlated with interest rate of fluctuaions. All financial instruments that have interest rate of return, such as securities, repurchase agreements, forwards, futures and swaps are evaluated in order to determine interest rate risk which shall be changed according to fluctuations of interest rates.

The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2012:

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.3 Market risk (cont'd)

4.3.2 Interest rate risk (cont'd)

December 31, 2012

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with TRNC Central Bank	63,524,061	-	-	-	-	3,670,369	67,194,430
Due from banks	12,010,174	1,075,879	46,095	-	-	7,734,464	20,866,612
Available for sale investments	-	-	-	6,132,452	-	-	6,132,452
Held to maturity investments	911,530	919,575	3,576,617	-	695,873	-	6,103,595
Derivative financial assets	176,190	-	-	-	-	-	176,190
Loans and advances to customers	2,858,010	125,496,263	1,741,140	29,169,338	77,028,356	22,092,912	258,386,019
Other assets (*)	-	-	-	-	-	27,346,961	27,346,961
Total assets	**79,479,965**	**127,491,717**	**5,363,852**	**35,301,790**	**77,724,229**	**60,844,706**	**386,206,259**
LIABILITIES (**)							
Due to other banks	-	-	-	-	-	1,404,000	1,404,000
Customer deposits	263,887,192	16,495,787	11,150,783	492,672	-	31,155,711	323,182,145
Other liabilities (***)	-	-	-	-	-	14,361,831	14,361,831
Total liabilities	**263,887,192**	**16,495,787**	**11,150,783**	**492,672**	**-**	**46,921,542**	**338,947,976**
Total interest sensitivity gap	**(184,407,227)**	**110,995,930**	**(5,786,931)**	**34,809,118**	**77,724,229**	**13,923,164**	**47,258,283**

(*) Other assets / non-interest bearing includes; investments in associates amounting to TL 468,676, property and equipment amounting to TL 16,980,606, investment in property amounting to TL 2,762,426, asset held for sale amounting to TL 3,059,126 and other assets amounting to TL 4,076,127.

(**) Total equity amounting to TL 47,258,282 is excluded.

(***) Other liabilites / non-interest bearing includes; current tax liabilites amounting to TL 14,903, deferred tax liabilities amounting to TL 1,708,887 and other liabilites amounting to TL 12,638,042.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.3 Market risk (cont'd)

4.3.2 Interest rate risk (cont'd)

The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2011:

December 31, 2011 ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with TRNC Central Bank	45,423,299	-	-	-	-	3,380,737	48,804,036
Due from banks	10,750,448	2,236,951	43,874	-	-	1,454,836	14,486,109
Trading securities	69,622	-	-	-	-	-	69,622
Available for sale investments	3,027,210	3,151,358	-	-	-	-	6,178,568
Held to maturity investments	911,530	1,033,896	2,489,034	-	738,576	-	5,173,036
Derivative financial assets	-	155,000	-	-	-	-	155,000
Loans and advances to customers	2,630,912	96,437,109	3,916,364	23,003,969	49,121,674	27,514,000	202,624,028
Other assets (*)	-	-	-	-	-	21,000,611	21,000,611
Total assets	**62,813,021**	**103,014,314**	**6,449,272**	**23,003,969**	**49,860,250**	**53,350,184**	**298,491,010**
LIABILITIES (**)							
Due to other banks	-	-	-	-	-	2,354,940	2,354,940
Customer deposits	201,773,463	12,594,763	4,682,410	3,315,708	-	24,754,809	247,121,153
Other liabilities (***)	-	-	-	-	-	7,336,481	7,336,481
Total liabilities	**201,773,463**	**12,594,763**	**4,682,410**	**3,315,708**	**-**	**34,446,230**	**256,812,574**
Total interest sensitivity gap	**(138,960,442)**	**90,419,551**	**1,766,862**	**19,688,261**	**49,860,250**	**18,903,954**	**41,678,436**

(*) Other assets / non-interest bearing includes; investments in associates amounting to TL 280,799, property and equipment amounting to TL 11,513,609, investment in property amounting to TL 2,282,272, asset held for sale amounting to TL 2,227,025 and other assets amounting to TL 4,696,906.

(**) Total eqity amounting to TL 41,678,436 is excluded.

(***) Other liabilites / non-interest bearing includes; current tax liabilites amounting to TL 1,257,725, deferred tax liabilities amounting to TL 886,974 and other liabilites amounting to TL 5,191,782.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.3 Market risk (cont'd)

4.3.3 Foreign exchange risk

The Group is exposed to foreign exchange rate risk due to fluctuations between the foreign currency denominated assets and liabilities. Additionally, value changes of various foreign currencies causes foreign currency exchange rate risk.

In accordance with "Banks' Internal Audit, Risk Management, Internal Control and Management Systems statement", the foreign exchange risk is monitored and possible changes in the foreign currency denomianted transactions are observed. Standart method, which is indicated in the regulation, is used in monitoring of foreign exchange risk. Risk department follows the impact of the foreign currency risk at the capital adequacy over the monthly foreign currency net position reports within the framework of the Risk Management Strategies.

As of December 31, 2012, the Group's net foreign currency position, after including off-balance sheet position (notional values of derivatives) is TL 2,137,870 long.

December 31, 2012

ASSETS	**TL**	**USD**	**EUR**	**GBP**	**Total**
Cash and balances with TRNC Central Bank	30,756,292	4,117,793	10,934,757	21,385,588	67,194,430
Due from banks	11,214,638	393,578	678,048	8,580,348	20,866,612
Available for sale investments	6,132,452	-	-	-	6,132,452
Held to maturity investments	5,407,091	696,504	-	-	6,103,595
Derivative financial assets	176,190	-	-	-	176,190
Loans and advances to customers	178,750,806	8,380,743	11,325,739	59,928,731	258,386,019
Property and equipment	16,980,606	-	-	-	16,980,606
Investment property	2,762,426	-	-	-	2,762,426
Asset held for sale	3,059,126				3,059,126
Other assets (*)	4,404,881	-	-	139,922	4,544,803
Total	**259,644,508**	**13,588,618**	**22,938,544**	**90,034,589**	**386,206,259**
LIABILITIES (**)					
Due to other banks	-	-	1,404,000	-	1,404,000
Customer deposits	234,147,507	9,493,761	13,901,354	65,639,523	323,182,145
Other liabilities (***)	8,780,789	-	-	5,581,043	14,361,832
Total	**242,928,296**	**9,493,761**	**15,305,354**	**71,220,566**	**338,947,977**
Net on balance sheet position	**16,716,212**	**4,094,857**	**7,633,190**	**18,814,023**	**47,258,282**
Net off-balance sheet position	**28,580,390**	**(3,918,200)**	**(7,254,000)**	**(17,232,000)**	**176,190**
Net position including TL	**45,296,602**	**176,657**	**379,190**	**1,582,023**	**47,434,472**

(*) Other assets includes; investment in associates amounting to TL 468,676 and other assets amounting to TL 4,076,127.

(**) Total equity amounting to TL 47,258,282 is excluded.

(***) Other liabilites includes; current tax liabilites amounting to TL 14,903, deferred tax liabilities amounting to TL 1,708,887 and other liabilites amounting to TL 12,638,042.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.3 Market risk (cont'd)

4.3.3 Foreign exchange risk (cont'd)

As of December 31, 2011, the Group's net foreign currency position, after including off-balance sheet position (notional values of derivatives) is TL 1,256,892 long.

December 31, 2011

ASSETS	**TL**	**USD**	**EUR**	**GBP**	**Total**
Cash and balances with TRNC	33,216,453	1,484,136	3,549,805	10,553,642	48,804,036
Due from banks	13,267,047	241,766	230,732	746,564	14,486,109
Available for sale investments	6,178,568	-	-	-	6,178,568
Held to maturity investments	4,431,033	742,003			5,173,036
Trading securities	69,622	-	-	-	69,622
Derivative financial assets	155,000	-	-	-	155,000
Loans and advances to customers	137,711,193	9,543,859	6,890,772	48,478,204	202,624,028
Property and equipment	11,513,609	-	-	-	11,513,609
Investment property	2,282,272	-	-	-	2,282,272
Asset held for sale	2,227,025	-	-	-	2,227,025
Other assets (*)	4,923,587	-	-	54,118	4,977,705
Total	**215,975,409**	**12,011,764**	**10,671,309**	**59,832,528**	**298,491,010**
LIABILITIES (**)					
Due to other banks	86,940	2,268,000	-	-	2,354,940
Customer deposits	190,379,510	5,042,896	10,285,740	41,413,007	247,121,153
Other liabilities (***)	6,765,415	-	-	571,066	7,336,481
Total	**197,231,865**	**7,310,896**	**10,285,740**	**41,984,073**	**256,812,574**
Net on balance sheet position	**18,743,544**	**4,700,868**	**385,569**	**17,848,455**	**41,678,436**
Net off-balance sheet position	**21,833,000**	**(4,158,000)**	**-**	**(17,520,000)**	**155,000**
Net position including TL	**40,576,544**	**542,868**	**385,569**	**328,455**	**41,833,436**

(*) Other assets includes; investment in associates amounting to TL 280,799 and other assets amounting to TL 4,696,906.

(**) Total equity amounting to TL 41,678,436 is excluded.

(***) Other liabilites includes; current tax liabilites amounting to TL 1,257,725, deferred tax liabilities amounting to TL 886,974 and other liabilites amounting to TL 5,191,782.

Foreign currency sensitivity

The Group is mainly exposed to USD, EUR and GBP currencies. The following table details the Group's sensitivity to a 10% appreciation and depreciation in the TL against USD, EUR and GBP. The 10% rate is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. A positive number indicates an increase in profit or loss and equity where the TL strengthens against USD, EUR and GBP.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.3 Market risk (cont'd)

4.3.3 Foreign exchange risk (cont'd)

Foreign Currency Sensitivity Analysis:

	Profit / Loss					
	December 31, 2012		December 31, 2011		January 1, 2011	
	Foreign currency appreciation	Foreign currency devaluation	Foreign currency appreciation	Foreign currency devaluation	Foreign currency appreciation	Foreign currency devaluation
Change of US Dollars against TL by 10%:						
US Dollars net assets / liabilities	409,486	(409,486)	470,087	(470,087)	733,422	(733,422)
US Dollars hedged from risks (-)	(391,820)	391,820	(415,800)	415,800	-	-
US Dollars net effect	**17,666**	**(17,666)**	**54,287**	**(54,287)**	**733,422**	**(733,422)**
Change of Euro against TL by 10%:						
Euro net assets / liabilities	763,319	(763,319)	38,557	(38,557)	(28,937)	28,937
Euro hedged from risks (-)	(725,400)	725,400	-	-	-	-
Euro net effect	**37,919**	**(37,919)**	**38,557**	**(38,557)**	**(28,937)**	**28,937**
Change of Sterling against TL by 10%:						
GBP net assets / liabilities	1,881,402	(1,881,402)	1,784,846	(1,784,846)	1,470,982	(1,470,982)
GBP hedged from risks (-)	(1,723,200)	1,723,200	(1,752,000)	1,752,000	-	-
GBP net effect	**158,202**	**(158,202)**	**32,846**	**(32,846)**	**1,470,982**	**(1,470,982)**
Total net effect	**213,787**	**(213,787)**	**125,690**	**(125,690)**	**2,175,467**	**(2,175,467)**

4 Financial risk management (cont'd)

4.4 Liquidity risk

Liquidity risk arises in the general funding of the Group's financing and trading activities and in the management of investment positions. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

It reflects the potential mismatch of payment obligation to incoming payments, taking into account unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/ call risk). Liquidity risk involves both the risk of unexpected increases in the cost of the funding the portfolio of asset at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

15th article and 3th paragraph of the 39/2001 numbered Banking Law Article target to measure, monitoring and controlling of the quantifiable risks. Liquidity risk is measured and visualized according to mensioned law's 12th Article; "Risk Management System". In this context, the following main points are analyzed;

- TL, Type of Currency and Consolidated TL Liquidity Gap According to Maturity
- Total Assets Value at Risk
- Shareholders Equity Value at Risk
- Deposit Concentration Risk
- Interest Sensetive Assets and Interest Sensitive Liabilities' Currency Interest Compare
- Liquidity Gap Funding Cost

Analysis of financial liabilities by remaining contractual maturities

The tables below show the Group's maturity distribution of certain financial liabilities, other than derivatives. The tables below are prepared by considering the contractual undiscounted cash flows expected on the nearest cash flow dates. The interest which will be paid at the maturity date is included in these tables. Interest payable for floating rate liabilities are determined by taking the latest rate and applying the same rate for all the future payments.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.4 Liquidity risk (cont'd)

December 31, 2012

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	Total
Due to other banks	1,404,000	1,404,000	-	-	-	1,404,000
Customer deposits	323,182,145	31,155,711	266,341,720	17,115,528	11,756,223	326,369,182
Other liabilities	12,638,041	12,638,041	-	-	-	12,638,041
Total	**337,224,186**	**45,197,752**	**266,341,720**	**17,115,528**	**11,756,223**	**340,411,223**

December 31, 2011

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	Total
Due to other banks	2,354,940	2,354,940	-	-	-	2,354,940
Customer deposits	247,121,153	24,754,809	205,886,866	12,963,770	5,394,611	249,000,056
Other liabilities	5,191,782	5,191,782	-	-	-	5,191,782
Total	**254,667,875**	**32,301,531**	**205,886,866**	**12,963,770**	**5,394,611**	**256,546,778**

The tables below show the remaining maturities of derivatives:

December 31, 2011	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 years**	**Over 5 years**	**Total**
Forward Contracts Sell	-	21,833,000	-	-	-	21,833,000
Total	**-**	**21,833,000**	**-**	**-**	**-**	**21,833,000**

December 31, 2012	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 years**	**Over 5 years**	**Total**
Forward Contracts Sell	28,580,390	-	-	-	-	28,580,390
Total	**28,580,390**	**-**	**-**	**-**	**-**	**28,580,390**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

4 Financial risk management (cont'd)

4.5 Fair values of financial assets and liabilities

a. Financial instruments not measured at fair value

The carrying amounts and fair values of financial assets and liabilities are not presented, because on the Group's statement of financial position the fair value is not materially different from the carrying amount.

b. Financial instruments measured at fair value

The tables below present the fair values of those financial assets and liabilities presented on the Group's statement of financial position at fair value by fair value measurement level at December 31, 2012, 2011 and January 1, 2011 The Group has no financial assets and liabilities measured in Level 1 and Level 3 at December 31, 2012, 2011 and January 1, 2011.

	December 31, 2012		
Financial assets	**Level 1**	**Level 2**	**Total**
Derivative financial assets	-	176,190	176,190
Available for sale investments	-	6,132,452	6,132,452

	December 31, 2011		
Financial assets	**Level 1**	**Level 2**	**Total**
Financial assets at FVTPL	-	69,622	69,622
Derivative financial assets	-	155,000	155,000
Available for sale investments	-	6,178,568	6,178,568

	January 1, 2011		
Financial assets	**Level 1**	**Level 2**	**Total**
Financial assets at FVTPL	-	61,828	61,828

4.6 Capital adequacy and credit ratings

The Group's regulatory own funds include the share capital, the reserves, and retained earnings.

Consolidated capital adequacy ratio is calculated in accordance with "Regulation of Principles and Procedures on Measurement and Assessment of Capital Adequacy of Banks" which is publised on August 9, 2007 and 144 numbered and Amendment Notification on August 17, 2007 and March 19, 2008 respectively numbered 151 and 53.

Whitin the scope of the 33rd article of the 39/2001 numbered "Regulation of Principles and Procedures on Measurement and Assessment of Capital Adequacy of Banks" law, risk-weighted items and total of the risks, which are credit risk, market risk and operational risk, are determined and Capital Adequacy

Ratio is measured by divided with shareholders' equity. Loan collateral structure determines the sensitivity of the credit risk, foreign exchange position determines the market risk and finally the average overall profitability of the last three years determines the operational risk and the type and maturity of marketable securities and derivative instruments. The capital adequacy ratio that is calculated based on Basel 1 on December 31, 2012 and on December 31, 2011 which are above the minumum limits of 8%.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

5 Segment reporting

Since the Group's debt or equity instruments are not traded in a public market, the segmental reporting prepared in accordance with IFRS 8 is not disclosed.

6 Net interest income

	12 month period ended	
	2012	**2011**
Interest earned on:		
Loans and advances to customers	31,503,021	29,017,481
Securities	796,758	357,404
Available for sale investments	*777,170*	*273,653*
Financial assets at FVTPL	-	*69,622*
Held to maturity investments	*19,588*	*14,129*
Due from banks	4,077,188	2,868,292
Interest income	**36,376,967**	**32,243,177**
Interest payable on:		
Customer deposits	(21,959,641)	(16,895,559)
Due to other banks	(51,325)	(12,845)
Interest expenses	**(22,010,966)**	**(16,908,404)**
Net interest income	**14,366,001**	**15,334,773**

7 Net fee and commission income

	12 month period ended	
	2012	**2011**
Fee and commission income		
Commission income from guarantees and commitments	289,502	234,430
Credit card commission income	703,419	450,934
Insurance commission income	321,095	109,405
Remit commission income	114,258	159,891
Other commission income	62,689	12,799
Total	**1,490,963**	**967,459**
Fee and commission expenses		
Commission to guarantees commitments	(40,168)	(59,355)
Total	**(40,168)**	**(59,355)**
Net fee and commission income	**1,450,795**	**908,104**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

8 Net trading income and results from investment securities

	12 month period ended	
	2012	**2011**
Gains on foreign exchange differences	863,256	3,977,523
Realized gains from derivatives	1,876,997	152,505
Total	**2,740,253**	**4,130,028**

9 Other operating income

Other operating income mainly consists of gain on disposal of property and equipment, rent income and other.

	2012	**2011**
Account maintenance fees	262,390	397,132
Income from cheque-book sales	62,137	82,453
Income from return cheques	20,414	23,979
Expertise income	15,948	4,084
Gain on sale of property	-	17,632
Gain on revaluation of investment properties	225,735	171,073
Other operating income	34,838	46,639
Total	**621,462**	**742,992**

10 Personnel expenses

	12 month period ended	
	2012	**2011**
Wages and salaries	8,030,482	4,058,600
Bonuses and other fringe benefits	842,755	555,132
Other personnel related benefits	64,730	49,787
Total	**8,937,967**	**4,663,519**

The average number of employees of the Group during the year 2012 and 2011 was 208 and 138, respectively. Other personnel related benefits include the cost of various benefits, subsidy and legal staff related costs.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

11 Retirement benefit obligations

Defined benefit plans

In accordance with TRNC Labor Law, the Bank and its subsidiary are not required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Due to regulations, the Bank and its subsidiary do not account retirement benefit provision.

12 General and administrative expenses

	12 month period ended	
	2012	**2011**
Office expenses	523,358	335,515
Utilities and rentals	508,743	479,045
Promotion and advertisement expenses	475,399	80,889
Communication expenses	305,159	134,842
Duties and taxes other than on income	192,952	230,411
Traveling expenses	186,074	30,277
Donations	110,939	927,470
Subscriptions and contributions	106,992	13,461
Stationary and other consumables	95,239	23,877
Insurance expenses	64,533	34,646
Credit card expenses	12,579	11,520
Other administrative expenses	73,718	424,368
Total	**2,655,685**	**2,726,321**

13 Depreciation expense

	2012	**2011**
Property and equipment (Note 26)	568,844	279,246
Total	**568,844**	**279,246**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

14 Loan impairment losses / (reversal)

	2012	2011
Impairment losses / (reversal) net on loans and advances to customers	817,325	(567,467)
Total	**817,325**	**(567,467)**

15 Other operating expenses

	2012	2011
SDIF (*) expenses	2,462,854	1,831,510
Consultancy fee	221,855	124,386
Premium provision (Note 31)	93,685	16,663
Maintenance and other related expenses	67,796	217,546
Unused vacation provision (Note 31)	44,246	174,408
Bonus provision (Note 31)	-	60,000
Total	**2,890,436**	**2,424,513**

(*) SDIF: Savings Deposit Insurance Fund.

16 Income tax expense

The details of income tax expense are as follows:

	2012	2011
Current tax	(429,634)	(1,272,438)
Deferred tax benefit / (charge) (Note 27)	(38,126)	(725,710)
Total	**(467,760)**	**(1,998,148)**
Profit before tax	**3,496,131**	**11,670,140**
Tax calculated based on the current tax rate of 23.5%	(821,591)	(2,742,483)
Effect of income not subject to taxation	154,203	48,246
Effect of expenses not deductible for tax purposes	(134,052)	(56,206)
Effect of investment incentive	305,709	768,856
Other	27,971	(16,561)
Income tax expense	**(467,760)**	**(1,998,148)**

16 Income tax expense (cont'd)

The Group is subject to income and corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results. TRNC Income Tax Office does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized. Corporations get 20% export relief on the total exports they make in the year.

In TRNC, corporate tax is levied at the rate of 10% on the taxable income. Further to this income tax of %15 is paid on the balance of net taxable income after deduction of corporate tax therefrom (making total tax liability of 23.5%) Tax rates were same for the years ended December 31, 2012, 2011 and January 1, 2011. Half of the tax payable is due by 31 May and the other half by 31 October of the following year; income tax is due by 30 June of the following year.

Profit on sale of shares is a taxable income. However as per the double tax agreement made between TRNC and Turkey (49/1988) profit made on sale of shares held Turkish residents for more than one year are not liable to TRNC tax.

In TRNC, there is no advance tax payment system. Losses can be carried forward to be offset against future taxable income for up to five years. However, losses cannot be carried back for offset against profits from previous periods.

The Bank file its tax returns by the end of April, following the close of the accounting year to which it relates. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within twelve years.

Income withholding tax

Salaries:

After deducting personal, family and other reliefs, monthly tax (PAYE) is calculated and paid to tax office monthly. The highest tax rate for real persons is 37%.

Interest payments to real persons are subject to 10% (final) withholding tax and Bank interest income is not merged with other income of the real person. Interest payments to corporations are subject to 12% withholding tax. Corporations merge their interest income with their other income and can offset their withholding tax against their yearend tax liability. As per the double tax agreement made between TRNC and Turkey (49/1988) maximum withholding tax on this matter is limited to 10%. Additionally according to TRNC Income Tax law, investment incentive is subject to 50% on purchase of business cars is utilized.

Professional services and fees rendered by non residents is liable to 23,5% withholding tax. As per the double tax agreement made between TRNC and Turkey (49/1988) maximum withholding tax on this matter is limited to 5%.

Royalties and licences paid to non residents are subject to 10% withholding tax.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

16 Income tax expense (cont'd)

Income withholding tax (cont'd)

Withholding tax on dividends paid is 15%. For shareholders of public companies 15% tax is their final tax liability. Withholding taxes payable are all due for payment on the 15 th day of the following month.

17 Cash and balances with TRNC Central Bank

	December 31, 2012	December 31, 2011	January 1, 2011
Cash in hand	3,670,369	3,380,737	1,893,662
Balances with TRNC Central Bank- Non-obligatory	38,488,046	26,114,556	19,291,913
Balances with TRNC Central Bank - Obligatory	25,036,015	19,308,743	16,308,764
Total	**67,194,430**	**48,804,036**	**37,494,339**

As of December 31, 2012, the reserve rates for the reserve deposits at the Central Bank of TRNC for Turkish Lira are implemented within an interval from 5% to 8% depending on the maturity of the deposits (December 31, 2011 – 8%, January 1, 2011 – 8%) and the reserve rates for the foreign currency liabilities are 8% (December 31, 2011 – 8%, January 1, 2011 – 8%).

18 Due from banks

	December 31, 2012	December 31, 2011	January 1, 2011
Time deposits with banks	13,132,148	13,031,273	20,202,491
Demand deposit with banks	7,734,464	1,454,836	953,650
Total	**20,866,612**	**14,486,109**	**21,156,141**

The Group does not have any past due or impaired balances due from banks.

The effective interest rates applied for time deposits are 8.86% for TL, 4.46% for EUR accounts, 4.75% for USD accounts and 4.85% for GBP accounts (December 31, 2011 – 9.05% for TL, 4.24% for EUR, 4.68% for USD and 4.80 for GBP; January 1, 2011 - 9.04% for TL, 4.75% for EUR and 4.21% for USD and 4.77 for GBP).

Amounts expressed in Turkish Lira (TL) unless otherwise stated

19 Financial assets at fair value through profit or loss

	December 31, 2012	December 31, 2011	January 1, 2011
Investment funds	-	69,622	61,828
Total	**-**	**69,622**	**61,828**

20 Derivative financial instruments

	Contract/ Notional	Fair values	
December 31, 2012	**Amount**	**Assets**	**Liabilities**
Derivatives held for trading:			
Foreign exchange derivatives	28,580,390	176,190	-
Total	**28,580,390**	**176,190**	**-**

	Contract/ Notional	Fair values	
December 31, 2011	**Amount**	**Assets**	**Liabilities**
Derivatives held for trading:			
Foreign exchange derivatives	21,833,000	155,000	-
Total	**21,833,000**	**155,000**	**-**

As of January 1, 2011, the Bank has no derivative transactions.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

21 Loans and advances to customers

	December 31, 2012	December 31, 2011	January 1, 2011
Public	42,214,505	53,059,273	32,842,109
Private	216,171,514	149,564,755	121,473,442
Total	**258,386,019**	**202,624,028**	**154,315,551**

	December 31, 2012	December 31, 2011	January 1, 2011
Neither past due nor impaired	221,989,684	132,946,898	118,178,164
Past due not impaired	14,303,422	42,163,131	6,963,914
Impaired	39,795,503	44,399,264	46,626,205
Total Gross	**276,088,609**	**219,509,293**	**171,768,283**
Less: Allowance for impairment on loans and advances to customers-collective	2,399,153	1,842,743	1,445,501
Less: Allowance for impairment on loans and advances to customers-individual	15,303,437	15,042,522	16,007,231
Loans and advances to customers	**258,386,019**	**202,624,028**	**154,315,551**

Movement in allowance for impairment on loans and advances to customers:

	2012	2011
Balance at January 1	**16,885,265**	**17,452,732**
Impairment losses on loans and advances to customers	3,329,966	162,650
Recoveries from previously impaired loans	(2,512,641)	(730,117)
Balance at December 31	**17,702,590**	**16,885,265**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

21 Loans and advances to customers (cont'd)

Ageing analysis of past due but not impaired loans and advances to customers per class of financial statements:

December 31, 2012	**Less than 30 days**	**31-60 days**	**61-90 days**	**Total**
Past due but not impaired	5,956,127	3,960,914	4,386,381	**14,303,422**
December 31, 2011				
Past due but not impaired	2,853,053	11,504,184	27,805,894	**42,163,131**
January 1, 2011				
Past due but not impaired	1,847,709	1,742,689	3,373,516	**6,963,914**

As of December 31, 2012, for the loans and advances to customers past due but not impaired, the Group has collaterals amounting to TL 4,324,896 which are received for the total exposure to the customers including past due exposures (December 31, 2011 – TL 16,396,470, January 1, 2011 – TL 2,427,135). During the computation of the amount stated above, collaterals are capped with the maximum of the customers' risks.

The loans and advances to customers neither past due nor impaired are in satisfactory risk category.

22 Available for sale investments

The Group has available for sale (AFS) investments as of 31 December 2012 and 2011. The Group does not have any AFS portfolio as of January 1, 2011.

	December 31, 2012	**December 31, 2011**
Available-for-sale investment securities:		
Corporate bonds	6,132,452	6,178,568
Total available-for-sale investment securities	**6,132,452**	**6,178,568**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

23 Held to maturity investments

	December 31, 2012	December 31, 2011	January 1, 2011
Held-to-maturity investment securities:			
TRNC government bonds and treasury bills (*)	5,407,091	4,431,033	3,902,685
Eurobonds	696,504	742,003	604,232
Total held-to-maturity investment securities	**6,103,595**	**5,173,036**	**4,506,917**

(*) Regarding the regulations in TRNC, the banks have to keep TRNC's government bonds and treasury bills in their portfolio until their maturity date. These government bonds are classified in the held to maturity portfolio and presented in the table above for each three years end.

	December 31, 2012	December 31, 2011
Opening	5,173,036	4,506,917
Additions within the period	5,407,089	4,431,034
Redemptions within the period	(4,431,033)	(3,902,686)
Valuation difference	(45,497)	137,771
Closing	**6,103,595**	**5,173,036**

24 Investment Properties

	2012	2011
Balance at the beginning of the year	2,282,272	2,111,199
Additions	254,421	-
Net gain from fair value adjustments	225,733	171,073
Balance at the end of the year	**2,762,426**	**2,282,272**

Fair value determination

The fair value of the Group's investment property at 31 December 2012 has been arrived at on the basis of a valuation carried out at that date by independent valuers not related with the Group. Those independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

25 Asset held for sale

On 2012, the Board of Directors of the Bank resolved to dispose of one of the Bank's buildings which were obtained against non performing loan in 2009. Negotiations with several interested parties have subsequently taken place. The related building which is expected to be sold within twelve months, have been classified as held for sale and is presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant asset and, accordingly, no impairment loss has been recognized on the classification of these assets as held for sale.

The movement of the asset held for sale is as follows:

	December 31, 2012	**December 31, 2011**
Balance at the beginning of the year	2,227,025	2,227,025
Additions	832,101	-
Balance at end of year	**3,059,126**	**2,227,025**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

26 Property and equipment

	Land & Buildings	Vehicles & Equipment	Leasehold Improvements	Total
Cost				
December 31, 2011	**11,482,975**	**8,391,911**	**125,702**	**20,000,588**
Additions	157,238	2,496,458	140,682	2,794,378
Disposals	-	(1,731,199)	-	(1,731,199)
Revaluation increase	3,635,076	-	-	3,635,076
December 31, 2012	**15,275,289**	**9,157,170**	**266,384**	**24,698,843**
Accumulated depreciation				
December 31, 2011	**1,309,240**	**7,052,037**	**125,702**	**8,486,979**
Depreciation charge for the year	223,764	338,825	6,255	568,844
Disposals	-	(1,698,671)	-	(1,698,671)
Revaluation increase	361,085			361,085
December 31, 2012	**1,894,089**	**5,692,191**	**131,957**	**7,718,237**
Net book value as of December 31, 2012	**13,381,200**	**3,464,979**	**134,427**	**16,980,606**

	Land & Buildings	Vehicles & Equipment	Leasehold Improvements	Total
Cost				
January 1, 2011	**5,655,975**	**7,901,288**	**125,702**	**13,682,965**
Additions	5,827,000	756,657	-	6,583,657
Disposals	-	(266,034)	-	(266,034)
December 31, 2011	**11,482,975**	**8,391,911**	**125,702**	**20,000,588**
Accumulated depreciation				
January 1, 2011	**1,189,906**	**7,138,656**	**125,702**	**8,454,264**
Depreciation charge for the year	119,334	159,912	-	279,246
Disposals	-	(246,531)	-	(246,531)
December 31, 2011	**1,309,240**	**7,052,037**	**125,702**	**8,486,979**
Net book value as of December 31, 2011	**10,173,735**	**1,339,874**	**-**	**11,513,609**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

26 Property and equipment (cont'd)

During the preparation of the financial statements as of December 31, 2012, the Group has revised its accounting policy for measurement after recognition determined in accordance with IAS 16 Property, Plant and Equipment as fair value model instead of cost model, which is previously applied, as of January 1, 2011. The Group Management believes that the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows.

Based on IAS 16, the Group did not adjust the comparative information and applied the new accounting policy prospectively from December 31, 2012. In this respect, TL 3,273,991 presenting the difference between carrying value determined with cost model and fair value is reflected to property and equipment as of December 31, 2012 and the net amount of TL 769,388 deferred tax liabilities resulted from this value increase and fair value difference is TL 2,504,603 accounted under revaluation fund.

27 Deferred tax assets and liabilities

	December 31, 2012		December 31, 2011		January 1, 2011	
	Deferred tax		Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Bonus provision	11,750	-	28,872	-	24,956	-
Premium and unused vacation provision	102,271	-	55,086	-	-	-
Economic life of property and equipment	123,690	-	110,638	-	157,270	-
Revaluation of securities	-	(8,444)	-	(9,738)	12,828	-
Revaluations of available-for-sale financial assets	-	(26,692)	-	(12,293)	-	-
Loans and advances	-	(1,174,324)	-	(1,014,078)	-	(338,768)
Revaluation fund	-	(769,387)	-	-	-	-
Investment property revaluations	-	(98,507)	-	(45,461)	-	(5,257)
General reserve	130,756	-	-	-	-	-
Total deferred tax assets/(liabilities)	**368,467**	**(2,077,354)**	**194,596**	**(1,081,570)**	**195,054**	**(344,025)**

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis where there is a legally enforceable right to set off the recognized amounts i.e. where a taxpayer may offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

27 Deferred tax assets and liabilities (cont'd)

Movement of net deferred tax asset / (liability) is presented as follows:

	2012	**2011**
Deferred tax asset / (liability) at January 1	**(886,974)**	**(148,971)**
Deferred tax recognized in income statement	(38,126)	(725,710)
Deferred tax recognized in other comprehensive income	(783,787)	(12,293)
Deferred tax asset / (liability) at December 31	**(1,708,887)**	**(886,974)**

28 Other assets

	December 31, 2012	**December 31, 2011**	**January 1, 2011**
Receivables from credit card suppliers	2,494,147	1,651,763	1,409,749
Checks clearance account	483,233	98,362	78,099
Receivable from banking services	431,289	273,961	137,682
Deposits given	305,552	32,542	31,016
Prepaid expenses	98,586	94,433	553
VAT and other recoverable taxes	25,130	730,081	441,741
Other	238,190	1,815,764	1,364,379
Total other assets	**4,076,127**	**4,696,906**	**3,463,219**

29 Due to other banks

	December 31, 2012	**December 31, 2011**	**January 1, 2011**
Due to TRNC Central Bank	1,404,000	2,354,940	476,978
Total due to other banks	**1,404,000**	**2,354,940**	**476,978**

30 Customer deposits

	December 31, 2012	**December 31, 2011**	**January 1, 2011**
Deposits:			
Individuals	275,160,939	199,895,926	149,175,744
Corporate	48,021,206	47,225,227	45,117,736
Total customer deposits	**323,182,145**	**247,121,153**	**194,293,480**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

31 Other liabilities

	December 31, 2012	December 31, 2011	January 1, 2011
Advances received	4,975,756	-	-
Credit cards payable	2,677,567	1,784,904	1,443,555
Clearance checks	1,562,108	981,873	657,400
Insurance payable	970,330	640,251	402,787
Payable to SDIF	696,846	495,516	411,911
Checks payable	636,381	491,957	137,930
Payroll related accruals	225,748	125,499	68,659
Unusued vacation accruals	218,654	174,408	-
Premium provision	216,544	122,859	106,196
Returns on stocks and bonds	189,469	130,015	105,874
Creditors and suppliers	80,160	42,417	54,058
Bonus provision	50,000	60,000	-
Other provisions	224	3,115	75,520
Taxes payable - other than income taxes	-	39,312	-
Other	138,254	99,656	384,441
Total other liabilities	**12,638,041**	**5,191,782**	**3,848,331**

The movement of provisions is summarized as follows:

2012	**Bonus Provision**	**Premium Provision**	**Unused Vacation Provision**	**Total**
Balance at January 1	**60,000**	**122,859**	**174,408**	**357,267**
Charge for the year	50,000	292,736	44,246	386,982
Utilized	(60,000)	(199,051)	-	(259,051)
Balance at December 31	**50,000**	**216,544**	**218,654**	**485,198**
2011				
Balance at January 1	**-**	**106,196**	**-**	**106,196**
Charge for the year	60,000	134,922	174,408	369,330
Utilized	-	(118,259)	-	(118,259)
Balance at December 31	**60,000**	**122,859**	**174,408**	**357,267**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

32 Contingent liabilities and commitments

Credit commitments

In the normal course of business, the Group enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group's exposure to credit loss in the events of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments.

The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	December 31, 2012	December 31, 2011	January 1, 2011
Letters of guarantee	12,358,559	12,465,584	13,929,553
Other commitments	21,021,000	22,694,350	19,451,670
Total commitments	**33,379,559**	**35,159,934**	**33,381,223**

33 Share capital issued

Share capital	Number of shares	Amount TL
January 1, 2011	**24,420,319**	**34,709,553**
Increase of share capital	-	-
December 31, 2011	**24,420,319**	**34,709,553**
Increase of share capital	7,132,718	7,132,718
December 31, 2012	**31,553,037**	**41,842,271**

The Group's share capital is composed of 31,553,037 ordinary shares.

On March 30, 2012, the paid in capital of the Group increased from TL 34,709,553 to TL 41,842,271. The increase was made through capitalization of retained earnings in the amount of TL 7,132,718.

As of December 31, 2012, the nominal share capital of the Group is TL 31,553,037 (December 31, 2011: 24,420,319) and the inflation effect is TL 10,289,234 (December 31, 2011: 10,289,234).

Amounts expressed in Turkish Lira (TL) unless otherwise stated

34 Reserves and retained earnings

2012	Legal Reserves	Other Reserve and Retained Earnings	Total
Balance at January 1	**1,844,703**	**4,201,818**	**6,046,521**
Transfer from retained earnings	712,378	(7,845,096)	(7,132,718)
Profit for the year	-	2,929,847	2,929,847
Balance at December 31	**2,557,081**	**(713,431)**	**1,843,650**
2011			
Balance at January 1	**1,325,374**	**(4,867,424)**	**(3,542,050)**
Transfer from retained earnings	519,329	(519,329)	-
Profit for the year	-	9,588,571	9,588,571
Balance at December 31	**1,844,703**	**4,201,818**	**6,046,521**

35 Movement of Unrealized Gains/Losses on Available for Sale Investments, Net of Tax

	2012	2011
Balance at January 1	40,018	-
Net change in fair value	61,272	52,311
Tax effect of net gains/losses on AFS	(14,399)	(12,293)
Balance at December 31	**86,891**	**40,018**

36 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of the following balances;

	December 31, 2012	December 31, 2011
Cash and balances with TRNC Central Bank	42,158,415	29,495,293
Investment funds (Type B, liquid)	-	69,622
Due from banks with original maturities of less than three months	20,820,517	14,442,235
Less: interest accruals	(90,817)	(83,152)
Total cash and cash equivalents	**62,888,115**	**43,923,998**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

37 Related - party balances and transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2012, 2011 and January 1, 2011 are presented below. Transactions were entered into with related parties during the course of business at market rates.

a. Balances and transactions with members of the Board of Directors and the key management of the Group

The Group entered into banking transactions with members of the Board of Directors of the Bank and other Group companies, as well as with the close members of family and entities controlled or jointly controlled by those persons, in the normal course of business. The list of the members of the Board of Directors of the Bank is shown under Note 1 General Information.

	December 31, 2012	December 31, 2011	January 1, 2011
Assets			
Loans and advances to customers	52,119	79,099	83,234
Liabilities			
Customer deposits	7,531,935	9,991,274	7,761,201

	12 month period ended December 31, 2012	2011
Income Statement		
Interest income	443	652
Interest expense	8,179	11,677

Compensation of the members of the Board of Directors and the key management of the Group

The members of Board of Directors received remuneration and benefits totaling approximately TL 51,828 as of December 31, 2012, (December 31, 2011 – TL 51,828) comprising mainly of salaries and other short-term benefits.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

37 Related - party balances and transactions (cont'd)

b. Balances and transactions with shareholders

	December 31, 2012	December 31, 2011	January 1, 2011
Assets			
Loans and advances to customers	17,019,459	830	30,452
Liabilities			
Customer deposits	4,424,014	1,102,302	657,923

	12 month period ended December 31,	
	2012	2011
Income Statement		
Interest income	1,562,675	254
Interest expense	7,672	-

The Group has not pledged any guarantees for the above transactions.

c. Other related party balances and transactions

Transactions between the other related parties are as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
Assets			
Loans and advances to customers	179	30,365	842
Liabilities			
Customer deposits	45,254	5,073	253

	12 month period ended December 31,	
	2012	2011
Income Statement		
Interest income	130	914

d. Balances and transactions with subsidiaries

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank have been eliminated on consolidation and are not disclosed in this note.

Amounts expressed in Turkish Lira (TL) unless otherwise stated

38 Group consolidated companies

	% Participation			
Name	**Place of Incorporation**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Near East Investment (Yakın Doğu Yatırım) Ltd.	TRNC	76%	76%	76%
Starcard Banka Kartları Merkezi Ltd. (*)	TRNC	16.67%	16.67%	16.67%

(*) Starcard accounted for as an associate.

39 Subsequent events

The buildings classified as asset held for sale amounting to TL 2,227,025 and TL 832,101, sold amounting to TL 2,400,000 and TL 1,000,000 respectively in 2013.

40 First time adoption of IFRS

These are the Group’s first financial statements prepared in accordance with IFRSs.

The accounting policies set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2012, the comparative information presented in these consolidated financial statements for the year ended 31 December 2011 and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the Group’s date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with TRNC Central Bank rules (previous GAAP).

An explanation of how the transition from previous GAAP to IFRSs has affected the Group’s financial position and financial performance is set out in the following tables:

Amounts expressed in Turkish Lira (TL) unless otherwise stated

	As as January 1, 2011 (date of transition)			As as December 31, 2011 (end of last period presented under previous GAAP)		
	Previous GAAP	**Effect of transition to IFRSs**	**Openning IFRS statement of financial position**	**Previous GAAP**	**Effect of transition to IFRSs**	**IFRSs**
Cash and balances with T.R. Central Bank	37,494,339	-	37,494,339	48,804,036	-	48,804,036
Due from banks	21,156,141	-	21,156,141	14,556,108	(69,999)	14,486,109
Trading securities	4,623,335	(4,561,507)	61,828	11,399,382	(11,329,760)	69,622
Derivative financial assets	-	-	-	155,000	-	155,000
Loans and advances to customers	147,444,498	6,871,053	154,315,551	188,173,455	14,450,573	202,624,028
Available for sale investments	-	-	-	-	6,178,568	6,178,568
Held to maturity investments	-	4,506,917	4,506,917	-	5,173,036	5,173,036
Subsidiaries and investments in associates	2,292,773	(2,092,349)	200,424	2,292,773	(2,011,974)	280,799
Property and equipment	2,402,382	2,826,319	5,228,701	8,443,950	3,069,659	11,513,609
Investment property	2,227,025	(115,826)	2,111,199	2,227,025	55,247	2,282,272
Asset held for sale	-	2,227,025	2,227,025	-	2,227,025	2,227,025
Other assets	5,261,619	(1,798,400)	3,463,219	7,436,703	(2,739,797)	4,696,906
Total assets	**222,902,112**	**7,863,232**	**230,765,344**	**283,488,432**	**15,002,578**	**298,491,010**
Due to other banks	476,978	-	476,978	2,354,940	-	2,354,940
Customer deposits	190,437,548	3,855,932	194,293,480	239,026,286	8,094,867	247,121,153
Current tax liabilities	31,158	-	31,158	1,218,413	39,312	1,257,725
Deferred tax liabilities	-	148,971	148,971	-	886,974	886,974
Other liabilities	5,210,427	(1,362,096)	3,848,331	7,018,990	(1,827,208)	5,191,782
Total liabilities	**196,156,111**	**2,642,807**	**198,798,918**	**249,618,629**	**7,193,945**	**256,812,574**
Total assets less total liabilities	**26,746,001**	**5,220,425**	**31,966,426**	**33,869,803**	**7,808,633**	**41,678,436**
Share capital issued	24,420,319	10,289,234	34,709,553	24,420,319	10,289,234	34,709,553
Available for sale investments reserve, net of tax	-	-	-	-	40,018	40,018
Reserves and retained earnings	2,325,682	(5,867,731)	(3,542,049)	9,449,484	(3,402,962)	6,046,522
Non-controlling interest	-	798,922	798,922	-	882,343	882,343
Total equity	**26,746,001**	**5,220,425**	**31,966,426**	**33,869,803**	**7,808,633**	**41,678,436**
Total equity and liabilities	**222,902,112**	**7,863,232**	**230,765,344**	**283,488,432**	**15,002,578**	**298,491,010**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

	Year ended December 31, 2011 (the latest period presented under previous GAAP)		
	Previous GAAP	**Effect of transition to IFRSs**	**IFRSs**
Interest income	42,950,494	(10,707,317)	32,243,177
Interest expense	(27,719,678)	10,811,274	(16,908,404)
Net interest income	**15,230,816**	**103,957**	**15,334,773**
Fee and commission income	234,430	733,029	967,459
Fee and commission expense	(59,255)	(100)	(59,355)
Net fee and commission income	**175,175**	**732,929**	**908,104**
Share of profit of associates	-	80,375	80,375
Net trading income and results from investment securities	4,048,533	81,495	4,130,028
Other operating income	1,262,994	(520,002)	742,992
Total operating income	**20,717,518**	**478,754**	**21,196,272**
Personnel expenses	(4,663,519)	-	(4,663,519)
General and administrative expenses	(2,748,042)	21,721	(2,726,321)
Depreciation, amortization and impairment charges	(504,953)	225,707	(279,246)
Impairment losses on loans and advances to customers and other impariment charges	(2,323,791)	2,891,258	567,467
Other operating expenses	(2,134,999)	(289,514)	(2,424,513)
Profit before tax	**8,342,214**	**3,327,926**	**11,670,140**
Income tax expense	(1,218,413)	(779,735)	(1,998,148)
Profit for the year	**7,123,801**	**2,548,191**	**9,671,992**
Other comprehensive income			
Net change in available-for-sale investments reserve	-	40,018	40,018
Total Other Comprehensive Income	**-**	**40,018**	**40,018**
Total Other Comprehensive Income	**7,123,801**	**2,588,209**	**9,712,010**

Amounts expressed in Turkish Lira (TL) unless otherwise stated

	December 31, 2011	January 1, 2011
Total assets per previous GAAP	**283,488,432**	**222,902,112**
Valuation of marketable securities	(48,156)	(54,589)
Credit card balance reclassification	(344,632)	(103,616)
Depreciation adjustment on fixed assets	3,069,659	2,826,319
Reclassification of debit balance deposits to loans	9,140,645	4,842,272
Loan loss provision adjustment	2,472,481	(3,936)
Consolidation adjustments	519,134	334,410
Fair value effect of investment properties	193,447	22,372
Total assets per IFRS Financials	**298,491,010**	**230,765,344**
	-	-

	December 31, 2011
Total profit per previous GAAP	**7,123,801**
Valuation of marketable securities	(45,879)
Bonusand premium provisions and vacation accrual	(251,071)
Depreciation adjustment on fixed assets	243,339
Loan loss provision adjustment	2,873,660
Consolidation adjustments	256,889
Deferred tax effect	(699,822)
Fair value effect of investment properties	171,075
Total profit per IFRS Financials	**9,671,992**
Other comprehensive income	40,018
Total comprehensive income per IFRS Financials	**9,712,010**