Tekstil Bankası Anonim Şirketi and Its Subsidiary

Consolidated Financial Statements
As at and for the Year Ended 31 December 2014
With Independent Auditors' Report

Building a better working world

Tekstil Bankası Anonim Şirketi and Its Subsidiary

TABLE OF CONTENTS

EY
Building a better working world

Güney Bağımsız Denetim ve SMMM AŞ
Eski Büyükdere Cad.
Orjin Maslak No:27
Maslak, Sarıyer 34398
İstanbul - Turkey

Tel : +90 212 315 30 00
Fax: +90 212 230 82 91
ey.com
Ticaret Sicil No: 479920-427502

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tekstil Bankası Anonim Şirketi:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Tekstil Bankası Anonim Şirketi ("the Bank") and its subsidiary (together referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst&Young Global Limited

Seda Hacıoğlu, SMMM
Partner

2 March 2015
İstanbul, Turkey

Tekstil Bankası Anonim Şirketi and Its Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2014
(Currency – In thousands of Turkish Lira (TL))

	Notes	31 December 2014	31 December 2013
ASSETS			
Cash and balances with the Central Bank	6	216,610	302,190
Reserve deposits at Central Bank	6	131,980	148,083
Due from banks	6	83,639	76,403
Cash collateral on securities borrowed and reverse repurchase agreements	6	75,023	-
Money market placements	6	11,003	-
Financial assets at fair value through profit and loss			
-Trading securities	7	2,478	1,481
-Derivative financial instruments	17	12,785	14,518
Loans and advances to customers	9	2,772,994	2,801,740
Investment securities			
-Available-for-sale	8	129,030	101,701
-Available-for-sale pledged as collateral	8	74,697	287,247
Property and equipment	10	26,821	16,445
Intangible assets	11	1,974	1,902
Deferred tax assets	16	9,722	8,327
Other assets	12	83,682	69,425
Total assets		**3,632,438**	**3,829,462**
LIABILITIES			
Due to banks	13	165,027	19
Deposits	13	2,342,233	2,521,794
Other money market deposits	13	64,359	258,597
Derivative financial instruments	17	5,735	6,192
Funds borrowed	14	348,103	341,000
Income tax payable	16	150	109
Employee benefits	15	11,035	9,194
Provisions	15	9,876	12,638
Other liabilities	15	75,108	74,403
Total liabilities		**3,021,626**	**3,223,946**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	18	420,000	420,000
Adjustment to share capital		4,108	4,108
Share capital premium		184	184
Fair value reserves		1,835	191
Revaluation surplus on buildings		6,867	4,876
Actuarial gain/(loss)		(567)	-
Legal reserves and retained earnings	19	178,385	176,157
Total equity		**610,812**	**605,516**
Total liabilities and equity		**3,632,438**	**3,829,462**

The accompanying policies and explanatory notes on pages 7 to 64 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2014
(Currency – In thousands of Turkish Lira (TL))

	Notes	1 January – 31 December 2014	1 January – 31 December 2013
Interest income			
Interest on loans and advances		298,329	260,840
Interest on securities		38,889	32,442
Interest on deposits with other banks and financial institutions		2,006	1,591
Interest on other money market placements		762	25
Other interest income		3,576	696
Total interest income		**343,562**	**295,594**
Interest expense			
Interest on deposits		(134,282)	(130,065)
Interest on funds borrowed		(9,330)	(10,422)
Interest on other money market deposits		(16,794)	(9,799)
Other interest expense		(44,460)	(15,134)
Total interest expense		**(204,866)**	**(165,420)**
Net interest income		**138,696**	**130,174**
Net impairment of loans and advances and credit related commitments	9	(41,051)	(52,370)
Net interest income after provision for impairment of loans and advances		**97,645**	**77,804**
Foreign exchange gain/(loss), net		(121)	(2,281)
Net interest income after foreign exchange gain and provision for impairment of loans and advances		**97,524**	**75,523**
Other operating income			
Fee and commission income	23	8,486	10,646
Income from banking services	24	13,764	17,255
Net trading income	8,25	18,162	9,870
Other income	26	5,701	55,294
		46,113	93,065
Other operating expenses			
Fee and commission expense	23	(4,924)	(4,274)
Salaries and employee benefits	27	(80,701)	(73,378)
Depreciation and amortization	10,11	(3,828)	(1,989)
Taxes other than on income		(6,148)	(8,187)
General and administrative expenses	28	(36,545)	(27,855)
Other expenses	29	(8,549)	(11,086)
		(140,695)	(126,769)
Profit from operating activities before income tax		**2,942**	**41,819**
Income tax – current	16	(2,077)	(4,643)
Income tax – deferred	16	1,363	2,152
Profit for the year		**2,228**	**39,328**

Tekstil Bankası Anonim Şirketi and Its Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014
(Currency – In thousands of Turkish Lira (TL))

	Notes	**1 January – 31 December 2014**	**1 January – 31 December 2013**
Attributable to:			
Equity holders of the Bank		2,228	39,328
Non-controlling interest		-	-
Profit for the year		**2,228**	**39,328**
Earnings per share (Kurus)	21	**0.05**	**0.94**
Other comprehensive income, net of income tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Fair value reserves (available-for-sale financial assets)			
Change in fair value		2,413	(20,103)
Amount transferred to profit or loss		(360)	(978)
Tax related to gain/loss recognized under equity		(409)	4,215
Net change in fair value reserves		1,644	(16,866)
Other comprehensive income not being reclassified to profit or loss in subsequent periods			
Revaluation surplus on buildings		2,096	1,007
Tax related to gain/loss recognized under equity		(105)	(50)
Net change in revaluation on buildings		1,991	957
Actuarial gain/(loss)		(708)	-
Tax related to gain/loss recognized under equity		141	-
Net change in actuarial gain/(loss)		(567)	-
Other comprehensive income for the year, net of income tax		**3,068**	**(15,909)**
Total comprehensive income for the year		**5,296**	**23,419**
Attributable to:			
Equity holders of the Bank		**5,296**	**23,419**
Non-controlling interest		**-**	**-**

The accompanying policies and explanatory notes on pages 7 to 64 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi and Its Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014
(Currency – In thousands of Turkish Lira (TL))

	Notes	Share Capital	Adjustment to share capital	Share capital premium	Fair value Reserves	Revaluation surplus on buildings	Actuarial gain/(loss)	Legal reserves and retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2013		420,000	4,108	184	17,057	33,416	-	107,332	582,097	-	582,097
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	39,328	39,328	-	39,328
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	(16,866)	-	-	-	(16,866)	-	(16,866)
Revaluation surplus on buildings	10	-	-	-	-	(28,540)	-	29,497	957	-	957
Total comprehensive income for the year		-	-	-	(16,866)	(28,540)	-	68,825	23,419	-	23,419
At 31 December 2013 / 1 January 2014		**420,000**	**4,108**	**184**	**191**	**4,876**	**-**	**176,157**	**605,516**	**-**	**605,516**
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	2,228	2,228	-	2,228
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	1,644	-	-	-	1,644	-	1,644
Revaluation surplus on buildings	10,19	-	-	-	-	1,991	-	-	1,991	-	1,991
Actuarial gain/(loss)	15,19	-	-	-	-	-	(567)	-	(567)	-	(567)
Total comprehensive income for the year		-	-	-	1,644	1,991	(567)	2,228	5,296	-	5,296
At 31 December 2014		**420,000**	**4,108**	**184**	**1,835**	**6,867**	**(567)**	**178,385**	**610,812**	**-**	**610,812**

The accompanying policies and explanatory notes on pages 7 to 64 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014
(Currency – In thousands of Turkish Lira (TL))

	Notes	1 January – 31 December 2014	1 January – 31 December 2013
Cash flows from operating activities			
Interest received		343,903	286,443
Interest paid		(206,657)	(165,950)
Fees and commissions received		8,172	10,621
Income from banking services		13,351	16,194
Trading income		17,909	10,371
Fees and commissions paid		(4,924)	(4,274)
Cash payments related to employee benefits and similar items		(79,568)	(72,802)
Net cash paid for other operating activities		(52,743)	(67,672)
Income taxes paid		(1,595)	(6,780)
Cash flows from operating activities before changes in operating assets and liabilities		**37,848**	**6,151**
Changes in operating assets and liabilities			
Trading securities		(747)	363
Reserve deposits at Central Bank		16,103	(58,430)
Loans and advances		(24,454)	(211,592)
Other assets		(11,228)	27,897
Deposits from banks		164,858	(53,498)
Deposits from customers		(177,416)	(134,481)
Other money market deposits		(194,221)	247,363
Other liabilities		(3,070)	(17,985)
Net cash (used in) by operating activities		**(230,175)**	**(200,363)**
Cash flows from investing activities			
Purchases of available for sale securities		(70,706)	(140,714)
Proceeds from sale and redemption of available for sale securities		259,051	73,899
Proceeds from sale of assets to be disposed of		8,234	11,187
Purchases of property and equipment	10	(11,828)	(769)
Proceeds from the sale of property and equipment		137	125,302
Purchase of intangible assets	11	(687)	(750)
Net cash provided by / (used in) investing activities		**184,201**	**68,155**
Cash flows from financing activities			
Proceeds from funds borrowed		699,700	711,743
Repayments of funds borrowed		(692,818)	(619,522)
Net cash provided by financing activities		**6,882**	**92,221**
Effect of exchange rates on cash and cash equivalents		8,843	18,713
Net increase / (decrease) in cash and cash equivalents		7,599	(15,123)
Cash and cash equivalents at the beginning of year		378,580	393,703
Cash and cash equivalents at the end of year	6	**386,179**	**378,580**

The accompanying policies and explanatory notes on pages 7 to 64 form an integral part of these consolidated financial statements.

Index for notes to the consolidated financial statements

(Currency – In thousands of Turkish Lira (TL))

1. CORPORATE INFORMATION

General

Tekstil Bankası Anonim Şirketi (a Turkish joint stock company – "Tekstilbank" or "the Bank") was incorporated on 29 April 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul. Certain ordinary shares of the Bank, representing 24.50% of the total, are listed on the Borsa Istanbul (formerly known as Istanbul Stock Exchange) since 23 May 1990.

The registered office address of the Bank is located at Maslak Mahallesi Dereboyu/2 Caddesi, No. 13, Sarıyer 34398 Istanbul/Turkey.

The parent and the ultimate parent of the Bank is GSD Holding A.Ş.

Parent Bank announced a Material Event Disclosure on 29 April 2014 in the Public Disclosure Platform (KAP), briefly declaring the signing of a share purchase agreement with respect to sale of 75.50% shares of the Parent Bank owned by GSD Holding A.Ş., the major shareholder of the Parent Bank, to Industrial Commercial Bank of China Limited (ICBC) company for 668,810 TL, which will become effective after obtaining relevant permissions from authorities in People's Republic of China and Turkey. On Ordinary General Assembly of GSD Holding A.Ş. dated 3 June 2014, it was decided to approve the sale transaction by majority of votes. With respect to the sale transaction, for obtaining the relevant permissions, formal applications have been made to Competition Authority and Banking Regulation and Supervision Agency (BRSA), and it was approved by Competition Authority in accordance with decision dated 20 August 2014 and numbered 14-29/593-259.The permission process conducted by ICBC in the presence of public authorities in China and BRSA is in progress.

Nature of Activities of the Bank / Group

For the purposes of the consolidated financial statements, the Bank and its subsidiary are together referred to as "the Group".

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets, which are conducted mainly with local customers.

The information related to the subsidiary included in consolidation and effective shareholding percentages of the Group at 31 December 2014 is as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding And Voting Rights (%)	
Tekstil Yatırım Menkul Değerler A.Ş. ("Tekstil Yatırım")	Istanbul/Turkey	Brokerage	99.998	99.998

As at 31 December 2014, the Bank has 44 branches located close to industrial zones of Turkey (2013 – 44 branches).

As at 31 December 2014 and 2013, the number of employees is:

	2014	2013
The Bank	852	853
Subsidiary	53	51
Total	**905**	**904**

The consolidated financial statements as at and for the year ended 31 December 2014 have been approved on 2 March 2015 by H.Çim Güzelaydınlı, the Chief Executive Officer and by Gülden Akdemir, the Chief Financial Officer of Tekstil Bankası A.Ş.. Authorised boards of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of these financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared from statutory financial statements of the Bank and its subsidiary in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the following material items in the statement of financial position which are measured at fair value:

- derivative financial instruments
- financial instruments at fair value through profit or loss
- available-for-sale financial instruments
- buildings recorded under property and equipment

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight Accounting and Auditing Standards Authority, formerly known as Turkish Accounting Standards Board. Additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiary maintain its books of accounts based on statutory rules and in accordance with Turkish Commercial Code, Capital Markets Board and Tax Regulations.

Functional and Presentation Currency of the Bank and Its Subsidiary:

The Bank's and Tekstil Yatırım's functional and presentation currency is TL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of TL. Turkish Kurus (Kr), which is used in presentation of earnings per share, equals 0.01 Turkish Lira.

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(a) Impairment of available-for-sale equity investments:

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry performance, changes in technology and operational and financing cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant Accounting Judgments, Estimates and Assumptions (continued)

(b) Impairment on property and equipment:

After recognition, the Group assesses the recoverable amount of its property and equipment. At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The Group provides appraisal reports of property from third party appraisers commissioned by BRSA and Capital Markets Board for determination of fair values of property at the period ends.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Impairment Losses on Loans and Advances:

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectability are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

(b) Fair Values of Derivatives and Other Financial Instruments:

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 5.

(c) Income Taxes:

The Bank and its subsidiary Tekstil Yatırım are subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax provisions and deferred tax in the period in which such determination is made.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant Accounting Judgments, Estimates and Assumptions (continued)

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

(d) Employee Termination Benefits:

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these benefits, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc.

2.3 Changes in Accounting Policy and Disclosures

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2014 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2014.

The new standards, amendments and interpretations which are effective as at 1 January 2014 are as follows:

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

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments did not have an impact on the consolidated financial statements of the Group.

IFRS Interpretation 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is not applicable for the Group and did not have any impact on the financial position or performance of the Group.

IAS 36 Impairment of Assets (Amended) - Recoverable Amount Disclosures for Non-Financial assets

As a consequential amendment to IFRS 13 Fair Value Measurement, some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets have been modified. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. These amendments did not have an impact on the consolidated financial statements of the Group.

IAS 39 Financial Instruments: Recognition and Measurement (Amended)- Novation of Derivatives and Continuation of Hedge Accounting

Amendments provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. These amendments did not have an impact on the consolidated financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IFRS 10 Consolidated Financial Statements (Amendment)

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

Standards issued but not yet effective and not early adopted

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

IFRS 9 Financial Instruments – Final Standard (2014)

In July 24, 2014 the IASB published the final version of IFRS 9 Financial Instruments, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forwardlooking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Group will assess the impact of the standard on financial position or performance of the Group.

IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are to be retrospectively applied for annual periods beginning on or after 1 July 2014. The amendments will not have an impact on the financial position or performance of the Group.

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. These amendments are to be applied prospectively for annual periods beginning on or after 1 January 2016.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Annual Improvements to IAS/IFRSs

In December 2013, the IASB issued two cycles of Annual Improvements to IFRSs – 2010–2012 Cycle and IFRSs – 2011–2013 Cycle. Other than the amendments that only affect the standards' Basis for Conclusions, the changes are effective for annual reporting periods beginning on or after 1 July 2014.

Annual Improvements - 2010–2012 Cycle

IFRS 2 Share-based Payment

Definitions relating to vesting conditions have changed and performance condition and service condition are defined in order to clarify various issues. The amendment is effective prospectively.

IFRS 3 Business Combinations

Contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments. The amendment is effective for business combinations prospectively.

IFRS 8 Operating Segments

The changes are as follows: i) Operating segments may be combined/aggregated if they are consistent with the core principle of the standard. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:

i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment is effective retrospectively.

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. The amendment is effective retrospectively.

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

Annual Improvements – 2011–2013 Cycle

IFRS 3 Business Combinations

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

Amendment to the Basis for Conclusions on IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

The Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 is effective for reporting periods beginning on or after 1 January 2017, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required.IFRS 15 scopes out (a) lease contracts within the scope of IAS 17 Leases; (b) insurance contracts within the scope of IFRS 4 Insurance Contracts; (c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; consequently the Group estimates that the impact of the standard on financial position or performance of the Group will not be significant.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

In August 2014, IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements.

Therefore, an entity must account for these investments either:

• At cost

• In accordance with IFRS 9 (or IAS 39), or

• Using the equity method

The entity must apply the same accounting for each category of investments. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments must be applied retrospectively. Early application is permitted and must be disclosed. The amendment is not applicable for the consolidated financial statements of the Group and will not have an impact on the consolidated financial position or performance of the Group.

Annual Improvements to IFRSs - 2012-2014 Cycle

In September 2014, IASB issued their annual cycle of improvements to IFRSs, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
- IFRS 7 Financial Instruments: Disclosures – servicing contracts; applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits – regional market issue regarding discount rate
- IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In September 2014, IASB issued amendments to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the remeasurement at fair value of an investment retained in a former subsidiary should be recognized only to the extent of unrelated investors' interests in that former subsidiary. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

In December 2014, IASB issued amendments to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

In December 2014, IASB issued amendments to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted. These amendments are not expected have significant impact on the notes to the consolidated financial statements of the Group.

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, as at 31 December 2014 and 2013.

Subsidiary is the entity controlled directly or indirectly by the Bank. Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Bank's returns.

Financial statements of related subsidiary is consolidated from the date when the control is transferred to the Bank.

In the full consolidation method, 100% of subsidiary' assets, liabilities, income, expense and offbalance sheet items are combined with the Bank's assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group's investment in the subsidiary and the Group's portion of the cost value of the capital of the subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiary shall be identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group's income statement. The Group has non-controlling interests due its subsidiary Tekstil Yatırım's minor shareholders (0.002% share) whose interests are immaterial to be presented in the consolidated financial statements.

Accounting policies of subsidiary has been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of financial position. All differences are taken to the profit or loss.

Foreign currency translation rates for major currencies used by the Group as at respective year-ends are as follows:

(Currency – In thousands of Turkish Lira (TL))

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign Currency Translation (continued)

	Euro / TL (full)	US Dollar / TL (full)
31 December 2012	2.3517	1.7826
31 December 2013	2.9365	2.1343
31 December 2014	2.8207	2.3189

2.6 Property and Equipment

Owned Assets

The cost of the property and equipment purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to International Accounting Standards ("IAS") 29. The property and equipment purchased after this date are recorded at their historical costs. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses, if any except for buildings. Where the carrying amount of an asset is greater than its estimated recoverable amount ("higher of net realizable value and value in use"), it is written down immediately to its recoverable amount. Buildings are recorded at the fair value and the amounts over carrying value of the buildings are recorded as revaluation surplus under the shareholders' equity. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Property and equipment acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the consolidated income statement.

Subsequent Expenditures

Expenditures incurred to replace a component of a property and equipment that is accounted for separately, and major inspection and overhaul costs, are capitalized. Expenditures for major renewals and improvement of property and equipment are capitalized and depreciated over the remaining useful lives of the related assets. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are reflected as expense in the consolidated income statement as incurred.

Depreciation

Property and equipment are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition.

The estimated useful lives are as follows:

Buildings	50 years
Machinery and equipment	4 – 10 years
Office items, furniture and fixtures	3 – 50 years
Motor vehicles	4 – 5 years
Leasehold improvements	Minimum of lease period or useful life

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property and Equipment (continued)

Gains and losses on disposal of property, plant and equipment are determined by comparing net proceeds with the carrying amount and recognized in other income/expense in the income statement.

Leasehold improvements comprise primarily capitalized head quarter and branch refurbishment costs.

2.7 Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

2.8 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held to maturity financial assets. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the asset is delivered to or by the Group. 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.

Financial Assets at Fair Value through Profit or Loss

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment Securities and Other Financial Assets (continued)

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Available-for-Sale Financial Assets

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

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the date of the statement of financial position. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used.

Held to Maturity Financial Assets

The Group has no financial assets classified as held to maturity as at 31 December 2014 and 2013.

2.9 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are classified in the consolidated financial statements within the security portfolio they belong to. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Offsetting Financial Instruments

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

2.11 Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its consolidated statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) 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.

The Group does not have any assets where 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, that are recognized to the extent of the Group’s continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing 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 consolidated statement of comprehensive income.

2.12 Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with original maturities of three months or less.

2.13 Impairment of Financial Assets

Assets Carried at Amortized Cost

The Group assesses at each date of statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data coming 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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets (continued)

(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; or
 (ii) national or local economic conditions that correlate with defaults on the assets in the group

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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 the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 written off are included in the consolidated income statement.

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets (continued)

Available for Sale Financial Assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated income statement.

2.14 Interest Bearing Deposits and Borrowings

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

2.15 Employee Benefits

(a) Reserve for employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

In addition, in accordance with existing social legislation in Turkey, the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(b) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short term employee benefits include vacation pay liability. In Turkey, according to the legislation, the employer has to make payments for unused vacation days when the personnel leave the company. Vacation pay liability is the undiscounted amount calculated over the unused vacation days of the employee.

(c) Defined contribution plans

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognised as an employee benefit expense when they are accrued.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.17 Leases

The Group as Lessee

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.18 Income and Expense Recognition

Interest income and expense are recognized in the consolidated income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Income and Expense Recognition (continued)

Fee for bank transfers and other banking transaction services are recorded as income when collected.

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and dividends.

Dividends are recognized when the shareholders' right to receive the payments is established.

2.19 Income Tax

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

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the date of financial position.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax relating to items recognized directly in equity is recognized in equity.

2.20 Derivative Financial Instruments

The Group enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the consolidated income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Derivative Financial Instruments (continued)

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract is accounted for under IAS 39 if it is a financial instrument and in accordance with other appropriate standards if it is not a financial instrument. When the host contract and embedded derivative are closely related, embedded derivatives are not separated from the host contract and accounted according to the standard applied to the host contract.

2.21 Fiduciary Assets

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

2.22 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2.23 Comparatives

Comparative figures have been reclassified to conform to changes in presentation in the current year. In order to be consistent with the presentation of financial statements dated 31 December 2014, there are certain reclassifications made on statement of financial position as of 31 December 2013.

As at December 31, 2013, employee benefits amounting to TL 9,194 which was previously booked under provisions is presented separately in the statement of financial position.

As at December 31, 2013, reserve deposits at Central Bank amounting to TL 148,083 which was previously booked under cash and balances with the Central Bank is presented separately in the statement of financial position.

The accompanying financial statements are presented comparatively to determine the tendency in the financial position, performance and cash flows of the Company. If the presentation and reclassification of the financial statement items change, the prior year financial statements are reclassified accordingly to conform to the current year's presentation and the restatement is explained in the notes.

2.24 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(Currency – In thousands of Turkish Lira (TL))

3. SEGMENT INFORMATION

Operating Segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations in each of the Group's reportable segments:

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers.
- *Corporate & SME Banking* — Includes loans, deposits and other transactions and balances with corporate and SME customers.
- *Other Operations* — Includes funds management and treasury activities.

Segment information at and for the year ended 31 December 2014 is as follows:

	Retail Banking	**Corporate, Commercial & SME Banking**	**Treasury and other Operations**	**Total**
Operating income	16,328	53,902	73,407	**143,637**
Operating expenses	(29,233)	(79,153)	(32,309)	**(140,695)**
Income/loss from operations	**(12,905)**	**(25,251)**	**41,098**	**2,942**
Taxation charge	-	-	(714)	**(714)**
Net income for the period	**(12,905)**	**(25,251)**	**40,384**	**2,228**
Assets and Liabilities				
Segment assets	400,147	2,442,547	789,744	**3,632,438**
Total assets	**400,147**	**2,442,547**	**789,744**	**3,632,438**
Segment liabilities	1,457,810	924,215	639,601	**3,021,626**
Shareholders' equity	-	-	610,812	**610,812**
Total liabilities and shareholders' equity	**1,457,810**	**924,215**	**1,250,413**	**3,632,438**
Other segment information				
Capital expenditure	-	-	12,515	12,515
Depreciation and amortization	257	488	3,083	3,828
Impairment losses on assets to be disposed of	-	-	176	176

(Currency – In thousands of Turkish Lira (TL))

3. SEGMENT INFORMATION (continued)

Segment information at and for the year ended 31 December 2013 is as follows:

	Retail Banking	Corporate, Commercial & SME Banking	Treasury and other Operations	Total
Operating income	16,954	39,855	111,779	**168,588**
Operating expenses	(24,033)	(67,644)	(35,092)	**(126,769)**
Income/loss from operations	**(7,079)**	**(27,789)**	**76,687**	**41,819**
Taxation charge	-	-	(2,491)	**(2,491)**
Net income for the period	**(7,079)**	**(27,789)**	**74,196**	**39,328**
Assets and Liabilities				
Segment assets	393,410	2,432,118	1,003,934	**3,829,462**
Total assets	**393,410**	**2,432,118**	**1,003,934**	**3,829,462**
Segment liabilities	1,482,589	1,117,878	623,479	**3,223,946**
Shareholders' equity	-	-	605,516	**605,516**
Total liabilities and shareholders' equity	**1,482,589**	**1,117,878**	**1,228,995**	**3,829,462**
Other segment information				
Capital expenditure	-	-	1,519	1,519
Depreciation and amortization	231	549	1,209	1,989
Impairment losses on assets to be disposed of	-	-	331	331

4. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board of Directors is assigned as Risk Supervisor who heads the Risk Management Group. The Risk Management Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Risk Management Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Risk Management Group reviews the latest figures and projections for the Bank's profit and loss accounts and statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

4. FINANCIAL RISK MANAGEMENT (continued)

Audit Committee

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- the supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- the preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- the maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports these control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically concerning several criteria such as financial power of customers, business capacity, industry, geographical segment and equity structure and with taking notice of the financial statements of the debtors obtained thoroughly to be audited in accordance with the relevant legislation.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank’s equity is performed daily. The risk concentration of the off-balance sheet transactions is followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Exposure to credit risk:

	31 December 2014				31 December 2013			
	Loans to customers	Balances with Central Bank	Due from banks (**)	Investment securities	Loans to customers	Balances with Central Bank	Due from banks (**)	Investment securities
Assets amortised at cost								
Individually impaired								
Loans and receivables with limited collectibility	16,789	-	-	-	4,915	-	-	-
Loans and receivables with doubtful collectibility	32,550	-	-	-	38,547	-	-	-
Uncollectible loans and receivables	108,873	-	-	-	136,338	-	-	-
Gross Amount	158,212	-	-	-	179,800	-	-	-
Allowance for individual impairment	(110,647)	-	-	-	(133,617)	-	-	-
Carrying amount	**47,565**	**-**	**-**	**-**	**46,183**	**-**	**-**	**-**
Loans with renegotiated terms	31,291	-	-	-	21,354	-	-	-
Carrying amount	**31,291**	**-**	**-**	**-**	**21,354**	**-**	**-**	**-**
Past due but not impaired								
High and standard grade	15,471	-	-	-	17,007	-	-	-
Closely monitored	24,922	-	-	-	25,329	-	-	-
Carrying amount	**40,393**	**-**	**-**	**-**	**42,336**	**-**	**-**	**-**
Neither past due nor impaired	-	-	-		-	-	-	
High and standard grade	2,679,823	317,837	169,665	-	2,689,906	401,082	76,403	-
Closely monitored	13,846	-	-	-	32,385	-	-	-
Carrying amount	**2,693,669**	**317,837**	**169,665**	**-**	**2,722,291**	**401,082**	**76,403**	**-**
Collective allowance for impairment	(39,924)	-	-	-	(30,424)	-	-	-
Carrying amount	**(39,924)**	**-**	**-**	**-**	**(30,424)**	**-**	**-**	**-**
Available for sale assets								
Individually impaired	-	-	-	-	-	-	-	-
Allowance for impairment	-	-	-	-	-	-	-	-
Neither past due nor impaired (*)	-	-	-	203,567	-	-	-	388,788
Carrying amount	**-**	**-**	**-**	**203,567**	**-**	**-**	**-**	**388,788**
Total carrying amount	**2,772,994**	**317,837**	**169,665**	**203,567**	**2,801,740**	**401,082**	**76,403**	**388,788**

(*) Excluding equity securities

(**) Including deposits from bank, cash collateral on reverse purchase agreements and money market placements

The above table represents the credit risk exposure of the Group at 31 December 2014 and 2013, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

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 with the approval of the Board of Directors after all the necessary procedures have been completed and the amount of the loss has been determined.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk extent.

	Loans and advances to customers	
31 December 2014	**Gross**	**Net**
Loans and Receivables with Limited Collectability	16,789	12,358
Loans and Receivables with Doubtful Collectability	32,550	14,067
Uncollectible Loans and Receivables	108,873	21,140
Total	**158,212**	**47,565**

31 December 2013	**Gross**	**Net**
Loans and Receivables with Limited Collectibility	4,915	3,029
Loans and Receivables with Doubtful Collectibility	38,547	7,029
Uncollectible Loans and Receivables	136,338	36,125
Total	**179,800**	**46,183**

As at 31 December 2014 and 2013, the Group has no allowance for other assets such as loans and advances to banks, money market placements and marketable securities. As at 31 December 2014 the Group has provided TL 661 (2013 – TL 1,638) impairment for ‘assets to be disposed of’ recorded under other assets.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The breakdown of cash and non-cash loans and advances to customers by type of collateral is as follows:

Cash Loans	**31 December 2014**	**31 December 2013**
Secured loans:	2,277,994	2,407,891
Secured by mortgages	547,657	632,064
Secured by cash collateral	99,768	36,709
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,630,569	1,739,118
Unsecured loans	487,359	378,090
Impaired loans, net	7,641	15,759
Total	**2,772,994**	**2,801,740**

Non-cash Loans	**31 December 2014**	**31 December 2013**
Secured loans:	620,366	970,731
Secured by mortgages	25,850	147,515
Secured by cash collateral	9,345	30,168
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	585,171	793,048
Unsecured loans	229,211	240,229
Total	**849,577**	**1,210,960**

The breakdown of non-performing loans and receivables based on the types of colletarals held against them is as follows:

	31 December 2014	**31 December 2013**
Secured by mortgages	37,312	54,118
Pledge on vehicles and other collateral	4,115	3,804
Unsecured	116,785	121,878
Total	**158,212**	**179,800**

The collateral amounts on the table above represent the minimum of the fair value of the collateral or the amount of non-performing loan against which the collateral acquired.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. Industry exposure information of biggest ten business sector for aggregate cash loans and non-cash loans is as follows:

	31 December 2014		31 December 2013	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Construction	395,945	281,448	412,795	473,413
Finance	390,480	85,898	225,086	84,596
Wholesale and retail commerce and motor vehicle services	220,975	52,284	201,584	75,002
Textile, Fabrics and Yarn Industry	134,442	59,411	168,947	52,393
Service	142,602	50,804	135,327	45,654
Mining and stone pits	166,789	18,740	159,881	11,612
Iron steel and metal processing	132,395	27,139	140,191	92,912
Food and beverages and tobacco	113,332	37,940	127,132	34,323
Agriculture, fishing and forestry	96,748	38,930	102,294	61,887
Chemical Industry	100,133	34,235	88,258	99,137
Others	459,449	162,748	599,284	180,031
Corporate loans	2,353,290	849,577	2,360,779	1,210,960
Consumer loans and credit cards	379,265	-	371,761	-
Specialized loans	14,422	-	22,905	-
Investment loans	18,376	-	30,536	-
Loans in arrears	158,212	-	179,800	-
Provision for possible loan losses	(150,571)	-	(164,041)	-
Total	**2,772,994**	**849,577**	**2,801,740**	**1,210,960**

Breakdown of non-performing loans is shown below:

	31 December 2014	**31 December 2013**
Corporate loans	138,660	146,899
Consumer loans	11,028	18,386
Credit cards	6,828	12,958
Specialized loans	536	325
Investment loans	1,160	1,232
Total non-performing loans	**158,212**	**179,800**

The Group’s activities are mainly concentrated in Turkey. As at 31 December 2014, 99% of cash loan portfolio including non-performing loans are granted in Turkey (2013 – Fully in Turkey).

As at 31 December 2014, the share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 47% (2013 – 48%).

As at 31 December 2014, the share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 74% (2013 – 76%).

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the BIST (Borsa Istanbul) Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the statement of financial position, the maximum limits have been set by the Board of Directors.

The Parent Bank diversifies its funding with steady deposit base and medium/long-term funds borrowed from international institutions which are mainly placed in interest earning assets. Deposits are obtained from individuals and corporate/commercial entities. The portion of saving deposits over total deposits is 62% as at 31 December 2014 (2013 – 59%). The Parent Bank performs customer concentration analysis on a branch basis and takes short and long term actions to disseminate customers in the branches with concentration risk. Funds borrowed consists of funds with different characteristics and maturity-interest structures like export financing, money market, post-finance funding and are provided from different reputable institutions.

Residual contractual maturities of financial liabilities:

31 December 2014	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
Due to banks	165,027	165,059	30	165,029	-	-	-	-
Deposits	2,342,233	2,352,560	139,384	1,515,941	670,246	26,966	23	-
Other money market deposits	64,359	64,457	-	64,457	-	-	-	-
Funds borrowed	348,103	351,302	-	59,603	110,046	181,653	-	-
Total	**2,919,722**	**2,933,378**	**139,414**	**1,805,030**	**780,292**	**208,619**	**23**	**-**
Non-cash loans (*)	**849,577**	**849,577**	**343,515**	**78,001**	**97,179**	**248,605**	**81,220**	**1,057**

31 December 2013	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
Due from banks	19	19	19	-	-	-	-	-
Deposits	2,521,794	2,529,937	180,665	1,807,564	516,493	25,195	20	-
Other money market deposits	258,597	258,654	-	258,654	-	-	-	-
Funds borrowed	341,000	345,366	-	31,950	88,941	220,569	3,906	-
Total	**3,121,410**	**3,133,976**	**180,684**	**2,098,168**	**605,434**	**245,764**	**3,926**	**-**
Non-cash loans (*)	**1,210,960**	**1,210,960**	**495,765**	**127,305**	**148,441**	**339,624**	**98,515**	**1,310**

(*) The letter of guarantees without a defined maturity date due to their business nature are presented at demand column.

(**) The contractual maturity distribution of derivative contracts are presented in Note 17.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at date of financial position to contractual maturity date.

	On Demand	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 Months	1 to 5 Years	Over 5 Years	Unallocated	Total
As at 31 December 2014									
Assets									
Cash and balances with Central Bank	216,610	-	-	-	-	-	-	-	216,610
Reserve deposits at Central Bank	-	131,980	-	-	-	-	-	-	131,980
Due from banks	4,746	78,893	-	-	-	-	-	-	83,639
Cash collateral on securities borrowed reverse repurchase agreements	-	75,023	-	-	-	-	-	-	75,023
Money market placements	-	11,003	-	-	-	-	-	-	11,003
Trading securities	2,053	-	143	-	-	53	229	-	2,478
Derivative financial instruments	-	12,682	72	31	-	-	-	-	12,785
Loans and advances	-	657,704	433,504	402,285	590,768	550,781	130,311	7,641	2,772,994
Investment securities	160	15,733	64,172	54,785	8,874	38,921	21,082	-	203,727
Total financial assets	223,569	983,018	497,891	457,101	599,642	589,755	151,622	7,641	3,510,239
Property and equipment	-	-	-	-	-	-	-	26,821	26,821
Intangible assets	-	-	-	-	-	-	-	1,974	1,974
Deferred tax assets	-	-	-	-	-	-	9,722	-	9,722
Other assets	-	68,698	2,866	260	208	97	-	11,553	83,682
Total assets	**223,569**	**1,051,716**	**500,757**	**457,361**	**599,850**	**589,852**	**161,344**	**47,989**	**3,632,438**
Liabilities									
Due to banks	30	164,997	-	-	-	-	-	-	165,027
Deposits	139,384	1,511,112	665,022	17,398	9,297	20	-	-	2,342,233
Other money market deposits	-	64,359	-	-	-	-	-	-	64,359
Derivative financial instruments	-	2,948	2,757	30	-	-	-	-	5,735
Funds borrowed	-	59,569	109,672	108,303	70,559	-	-	-	348,103
Total financial liabilities	139,414	1,802,985	777,451	125,731	79,856	20	-	-	2,925,457
Other liabilities and income tax payable	8,805	63,639	2,683	-	-	-	131	-	75,258
Employee benefits	-	-	-	-	-	-	-	11,035	11,035
Provisions	-	-	-	-	-	-	-	9,876	9,876
Total liabilities	**148,219**	**1,866,624**	**780,134**	**125,731**	**79,856**	**20**	**131**	**20,911**	**3,021,626**
Net liquidity gap	**75,350**	**(814,908)**	**(279,377)**	**331,630**	**519,994**	**589,832**	**161,213**	**27,078**	**610,812**
As at 31 December 2013									
Total assets	**463,375**	**660,118**	**380,403**	**434,973**	**667,893**	**946,400**	**234,562**	**41,738**	**3,829,462**
Total liabilities	**193,752**	**2,152,898**	**607,039**	**114,282**	**130,209**	**3,756**	**178**	**21,832**	**3,223,946**
Net liquidity gap	**269,623**	**(1,492,780)**	**(226,636)**	**320,691**	**537,684**	**942,644**	**234,384**	**19,906**	**605,516**

The liquidity analysis of the derivative transactions are presented in "Note 17. Derivatives" section.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

As per the Banking Regulation and Supervision Agency's (BRSA) Communiqué published on the Official Gazette no.26333 dated 1 November 2006 and became effective starting from 1 January 2007, "Measurement and Assessment of the Adequacy of Banks' Liquidity", the weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively. The Parent Bank's liquidity ratios for 2014 and 2013 are as follows:

	First Maturity Bracket		Second Maturity Bracket	
Liquidity Ratios	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio
31 December 2014	232.9	221.6	155.3	126.8
Average (%)	274.4	196.9	155.0	120.1
Max. (%)	429.7	254.3	202.1	136.3
Min. (%)	149.8	168.5	120.2	107.0

	First Maturity Bracket		Second Maturity Bracket	
Liquidity Ratios	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio
31 December 2013	238.4	196.6	150.8	129.1
Average (%)	259.3	212.8	142.0	127.7
Max. (%)	441.7	287.4	169.2	141.7
Min. (%)	113.3	171.1	115.0	117.7

Market Risk

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "position risk of equity securities" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the amount, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Method, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results are reported to the Senior Level Risk Committee and ALCO in regular periods. By regarding the VaR results, the risk of maturity mismatch is examined in the ALCO and the necessary measures are taken by the ALCO.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Standard method defined in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in Official Gazette no. 29111 dated 6 September 2014 is used in calculating the market risk. The criteria for the standard method have been set by the BRSA via section 2 of "Calculation of Market Risk" and "Communiqué on Capital Requirement Calculation for Market Risk arising from Options". Consolidated and bank only market risk is reported to BRSA on a monthly basis. The consolidated value at market risks calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes are as follows:

	2014			
	As at 31 December 2014	**Average**	**Highest**	**Lowest**
Interest rate risk	452	537	953	421
Equity securities risk (*)	651	568	651	339
Currency risk	64	95	126	43
Commodity risk	-	-	-	-
Option risk	-	3	10	-
Counterparty credit risk (**)	349	241	473	157
Total value at risk (***)	**18,950**	**18,047**	**22,750**	**14,288**

	2013			
	As at 31 December 2013	**Average**	**Highest**	**Lowest**
Interest rate risk	462	848	1,449	462
Equity securities risk (*)	342	375	468	324
Currency risk	699	719	1,161	264
Commodity risk	-	-	-	-
Option risk	307	425	541	307
Counterparty credit risk (**)	774	753	1,106	320
Total value at risk (***)	**32,300**	**38,991**	**57,763**	**26,563**

(*) VaR for mutual funds in trading securities are included here.

(**) Represents counterparty credit risk for only trading accounts.

(***) The minimum and maximum values of Total VaR represent the minimum and maximum values of quarter-end (month-end beginning from July 2014) calculated total VaRs, and are not related to the aggregate of the components of them stated in the table.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net position in foreign currencies, mostly in US Dollar and Euro.

The Group's foreign currency position risk is measured by "Standard Method" and Internal Models.

The concentrations of assets, liabilities and off balance sheet items are as follows:

	Turkish Lira	US Dollars	Euro	Others	Total
As at 31 December 2014					
Assets					
Cash and balances with Central Bank (**)	43,107	121,594	7,136	44,773	216,610
Reserve deposits at Central Bank	-	131,980	-	-	131,980
Due from banks	38,321	42,486	2,052	780	83,639
Cash collateral on securities borrowed reverse repurchase agreements	75,023	-	-	-	75,023
Money market placements	11,003	-	-	-	11,003
Trading securities	2,053	373	52	-	2,478
Loans and advances	2,154,914	478,141	136,011	3,928	2,772,994
Investment securities	199,530	4,197	-	-	203,727
Property and equipment	26,821	-	-	-	26,821
Intangible assets	1,974	-	-	-	1,974
Deferred tax assets	9,722	-	-	-	9,722
Other assets	62,342	12,326	9,014	-	83,682
Total assets (*)	**2,624,810**	**791,097**	**154,265**	**49,481**	**3,619,653**
Liabilities					
Due to banks	29	46,441	118,557	-	165,027
Deposits	1,354,968	712,377	266,282	8,606	2,342,233
Other money market deposits	64,359	-	-	-	64,359
Funds borrowed	36,109	222,082	88,107	1,805	348,103
Other liabilities and income tax payable	71,562	2,225	1,435	36	75,258
Employee benefits	11,035	-	-	-	11,035
Provisions	9,876	-	-	-	9,876
Total liabilities (*)	**1,547,938**	**983,125**	**474,381**	**10,447**	**3,015,891**
Net on-balance sheet position	**1,076,872**	**(192,028)**	**(320,116)**	**39,034**	**603,762**
Off-balance sheet position					
Net notional amount of derivatives (***)	(466,655)	191,451	320,240	(39,123)	5,913
Net Position	**610,217**	**(577)**	**124**	**(89)**	**609,675**
As at 31 December 2013					
Total assets (*)	2,560,761	922,340	282,654	49,189	3,814,944
Total liabilities (*)	1,635,660	1,110,896	461,730	9,468	3,217,754
Net on-balance sheet position	925,101	(188,556)	(179,076)	39,721	597,190
Off-balance sheet position	(311,830)	188,138	171,608	(38,815)	9,101
Net Position	**613,271**	**(418)**	**(7,468)**	**906**	**606,291**

(*) The amounts recorded as derivative financial instruments on asset and liability sides are not included above.

(**) As at 31 December 2014, precious metal amounting to TL 44,108 standing in Central Bank of Turkey accounts is consolidated in Others column above (2013 – TL 41,143).

(***) As at 31 December 2014, precious metal swap purchase transactions amounting to TL 22,054 and sales transactions amounting to TL 66,162 is consolidated in Others column above (2013 – TL 20,571 purchase and TL 61,714 sales transactions).

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at 31 December 2014 and 2013 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2014		31 December 2013	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	(58)	(58)	(42)	(42)
Euro	12	12	(747)	(747)
Other currencies	(9)	(9)	91	91
Total, net	**(55)**	**(55)**	**(698)**	**(698)**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

Cash Flow and Fair Value Interest Rate Risk

“Interest rate risk” is the probability of loss due to changes in interest rates depending on the Group’s position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the date of statement of financial position to the re-pricing date:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2014								
Assets								
Cash and balances with Central Bank	-	28,182	-	-	-	-	188,428	216,610
Reserve deposits at Central Bank	-	-	-	-	-	-	131,980	131,980
Due from banks	78,893	-	-	-	-	-	4,746	83,639
Cash collateral on securities borrowed reverse repurchase agreements	75,023	-	-	-	-	-	-	75,023
Money market placements	11,003	-	-	-	-	-	-	11,003
Trading securities	-	143	-	-	53	229	2,053	2,478
Derivative financial instruments	12,682	72	31	-	-	-	-	12,785
Loans and advances	1,322,993	298,548	149,532	328,815	535,154	130,311	7,641	2,772,994
Investment securities	66,828	67,012	63,330	4,711	123	1,563	160	203,727
Total financial assets	1,567,422	393,957	212,893	333,526	535,330	132,103	335,008	3,510,239
Property and equipment	-	-	-	-	-	-	26,821	26,821
Intangible assets	-	-	-	-	-	-	1,974	1,974
Deferred tax assets	-	-	-	-	-	-	9,722	9,722
Other assets	-	-	-	-	-	-	83,682	83,682
Total assets	**1,567,422**	**393,957**	**212,893**	**333,526**	**535,330**	**132,103**	**457,207**	**3,632,438**
Liabilities								
Due to banks	164,997	-	-	-	-	-	30	165,027
Deposits	1,511,112	665,029	17,404	9,303	1	-	139,384	2,342,233
Other money market deposits	64,359	-	-	-	-	-	-	64,359
Derivative financial instruments	2,948	2,757	30	-	-	-	-	5,735
Funds borrowed	59,569	109,672	108,303	70,559	-	-	-	348,103
Total financial liabilities	1,802,985	777,458	125,737	79,862	1	-	139,414	2,925,457
Other liabilities	-	-	-	-	-	-	75,258	75,258
Employee benefits	-	-	-	-	-	-	11,035	11,035
Provisions	-	-	-	-	-	-	9,876	9,876
Total liabilities	**1,802,985**	**777,458**	**125,737**	**79,862**	**1**	**-**	**235,583**	**3,021,626**
Interest sensitivity gap	**(235,563)**	**(383,501)**	**87,156**	**253,664**	**535,329**	**132,103**	**221,624**	**610,812**
As at 31 December 2013								
Total assets	**1,302,067**	**333,572**	**346,420**	**352,706**	**765,766**	**153,698**	**575,233**	**3,829,462**
Total liabilities	**2,096,112**	**605,544**	**111,307**	**130,215**	**3,740**	**-**	**277,028**	**3,223,946**
Interest sensitivity gap	**(794,045)**	**(271,972)**	**235,113**	**222,491**	**762,026**	**153,698**	**298,205**	**605,516**

The following table indicates the effective interest rates by major currencies for the major components of the statement of financial position as at 31 December 2014 and 2013:

31 December 2014	**Euro** %	**US Dollar** %	**TL** %
Cash and balances with Central Bank	-	-	1.51
Due from banks	-	0.40	11.45
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	11.88
Money market placements	-	-	11.63
Loans and advances to customers	5.15	5.40	12.43
Investment securities	-	5.83	11.41
Due to banks	0.99	1.51	-
Deposits	2.17	2.36	10.74
Obligations under repurchase agreements	-	-	8.69
Funds borrowed	1.75	1.65	7.25

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

31 December 2013	**Euro %**	**US Dollar %**	**TL %**
Cash and balances with Central Bank	-	-	-
Due from banks	-	0.67	9.03
Loans and advances to customers	5.68	6.24	11.23
Investment securities	4.77	6.00	10.30
Due to banks	-	-	-
Deposits	3.15	3.26	9.35
Obligations under repurchase agreements	-	-	7.26
Funds borrowed	2.45	2.02	5.88

In accordance with the BRSA's "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", published in the Official Gazette numbered 28034 and dated 23 August 2011, the interest rate risk of the banking book items (items other than trading accounts) is measured and reported monthly to BRSA. The interest rate risks of financial instruments on trading portfolio are considered within the scope of the market risk.

In accordance with the "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", for unconsolidated statutory accounts of the Parent Bank, economic valuation differences arising from fluctuations in interest rates, in different currencies are presented in the table below (excluding tax effect) as of 31 December 2014 and 2013.

31 December 2014	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses/Equity)
TL	500	(36,517)	%(5.8)
	(400)	33,591	%5.4
Euro	200	(756)	%(0.1)
	(200)	302	%0.0
US Dollar	200	(5,943)	%(1.0)
	(200)	5,902	%0.9
Total (of negative shocks)		**39,795**	**%6.3**
Total (of positive shocks)		**(43,216)**	**%(6.9)**

31 December 2013	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses/Equity)
TL	500	(48,318)	%(7.9)
	(400)	44,245	%7.2
Euro	200	(1,671)	%(0.3)
	(200)	1,090	%0.2
US Dollar	200	(12,570)	%(2.0)
	(200)	9,934	%1.6
Total (of negative shocks)		**55,269**	**%9.0**
Total (of positive shocks)		**(62,559)**	**%(10.2)**

4. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank’s operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses exposed to during the Bank’s activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the “Computation of the Operational Risk” of the circular, “Regulation on Measurement and Evaluation of Capital Adequacy of Banks” published in the Official Gazette numbered 29111 and dated 6 September 2014, using gross profit of the last three years 2011, 2012 and 2013 by using “Basic Indicator Approach” method. Value at operational risk, used in calculation of capital adequacy ratio, is amounting to TL 300,097. The 8% of VaR; TL 24,008 as at 31 December 2014 represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

Capital Adequacy

BRSA sets and monitors capital requirements for the Bank both on unconsolidated and consolidated basis. Additionally, the consolidated subsidiary; Tekstil Yatırım is supervised by Turkish Capital Market Board regarding capital adequacy ratios and related calculations.

Capital adequacy ratio is calculated within the scope of the “Regulation on Measurement and Evaluation of Capital Adequacy of Banks”, “Communiqué on Credit Risk Mitigation Techniques” published in the Official Gazette numbered 29111 dated 6 September 2014, “Communiqué on Capital Requirement Calculation for Market Risk of Options” published in the Official Gazette numbered 28337 dated 28 June 2012 and the “Regulation on Equities of Banks” published in the Official Gazette numbered 28756 dated 5 September 2013.

In the calculation of consolidated capital adequacy standard ratio, the accounts and transactions are evaluated by taking into account the relevant legislation. Accounts and transactions are classified in two separate portfolio as “trading accounts” and “banking accounts” and are used in the calculation of market and credit risks. Trading accounts and items deducted from the capital are not considered in the calculation of credit risks. In the calculation of risk weighted assets, amortized and impaired assets are accounted by net amounts after deducting the related amortization and provision amounts.

In the calculation of the amount subject to credit risk, the Group assesses its loans and receivables by taking the risk classes, rating notes and risk mitigation into consideration. “Simple financial collateral method” is used for banking accounts while “comprehensive financial collateral method” is used for trading accounts for taking risk mitigation elements into consideration.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy (continued)

Counterparty Credit Risk is calculated for derivative transactions, repo transactions, security-stock lending transactions, overdraft security transactions and long term trade transactions.

In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, fair value reserve relating to unrealized gains on securities classified as available-for-sale, revaluation surplus on buildings, actuarial gain/losses and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general loan loss provision calculated and recorded in accordance with BRSA standards.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

The regulatory capital and the capital adequacy ratio declared by the Bank as at 31 December 2014 are as follows:

31 December 2014	**Consolidated**	**Bank Only**
Amount subject to credit risk (I)	3,017,110	3,022,728
Amount subject to market risk (II)	18,950	11,238
Amount subject to operational risk (III)	300,097	282,483
Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)	**3,336,157**	**3,316,449**
Tier 1 Capital	610,599	606,646
Tier 2 Capital	22,615	22,615
Deductions from Capital	(2,413)	(2,413)
Total Regulatory Capital	630,801	626,848
Total regulatory capital expressed as a percentage of total risk-weighted assets and value at risks	**18.91%**	**18.90%**

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

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

	Carrying amount		**Fair value**	
31 December	**2014**	**2013**	**2014**	**2013**
Financial assets				
Due from banks	83,639	76,403	83,639	76,403
Cash collateral on securities borrowed and reverse repurchase agreements	75,023	-	75,023	-
Money market placements	11,003	-	11,003	-
Loans and advances	2,772,994	2,801,740	2,779,632	2,798,693
	2,942,659	**2,878,143**	**2,949,297**	**2,875,096**
Financial liabilities				
Due to banks	165,027	19	165,027	19
Deposits	2,342,233	2,521,794	2,342,968	2,523,427
Funds borrowed	348,103	341,000	348,651	342,042
	2,855,363	**2,862,813**	**2,856,646**	**2,865,488**

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments that are carried at amortized cost:

Deposits with other banks and financial institutions and money market receivables

Fair values of deposits with other banks and financial institutions and money market receivables are considered to approximate their respective carrying values due to their short-term nature.

Loans and Advances

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value.

Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central Bank, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as at 31 December 2014 and 2013, is given in the tables below:

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Eurobonds issued by the Turkish government	425	-	-	425
Equity securities	36	-	-	36
Other securities	-	2,017	-	2,017
Investment securities - available for sale				
Equity securities	-	-	160	160
Turkish government bonds	199,370	-	-	199,370
Eurobonds issued by the Turkish government	33	-	-	33
Other debt securities	-	-	4,164	4,164
Derivative financial instruments	-	12,785	-	12,785
Total assets carried at fair value	**199,864**	**14,802**	**4,324**	**218,990**
Derivative financial instruments	-	5,735	-	5,735
Total liabilities carried at fair value	**-**	**5,735**	**-**	**5,735**

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Eurobonds issued by the Turkish government	393	-	-	393
Equity securities	37	-	-	37
Other securities	-	1,051	-	1,051
Investment securities - available for sale				
Equity securities	-	-	160	160
Turkish government bonds	381,358	-	-	381,358
Eurobonds issued by the Turkish government	56	-	-	56
Other debt securities	749	-	6,625	7,374
Derivative financial instruments	-	14,518	-	14,518
Total assets carried at fair value	**382,593**	**15,569**	**6,785**	**404,947**
Derivative financial instruments	-	6,192	-	6,192
Total liabilities carried at fair value	**-**	**6,192**	**-**	**6,192**

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy (continued)

The following table shows a reconciliation of the fair value measurements of financial assets in Level 3 of the fair value hierarchy for the years 2014 and 2013:

Available-for-sale securities	**2014**	**2013**
Balance at 1 January	6,785	7,380
Additions	-	160
Disposals	(2,774)	(1,924)
Foreign exchange differences	313	1,169
Balance at 31 December	**4,324**	**6,785**

There are no transfers between the first and the second levels in the current year.

The buildings recorded under property and equipment on the statement of financial position are carried at fair value. Such fair value measurement includes inputs of Level 3 of the fair value hierarchy. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

6. CASH AND CASH EQUIVALENTS

	31 December 2014	**31 December 2013**
Cash on hand	30,753	49,191
Balances with Central Bank	317,837	401,082
Cash and balances with central banks	**348,590**	**450,273**
Due from banks	**83,639**	**76,403**
Cash collateral on securities borrowed and reverse repurchase agreements	**75,023**	**-**
Money market receivables	**11,003**	**-**
Cash and cash equivalents in the statement of financial position	**518,255**	**526,676**
Less: Income accrual	(96)	(13)
Less: Reserve deposits at Central Bank	(131,980)	(148,083)
Cash and cash equivalents in the statement of cash flows	**386,179**	**378,580**

As at 31 December 2014 and 2013, deposits and placements due from are as follows:

	31 December 2014				**31 December 2013**			
	Amount		**Effective interest rate (%)**		**Amount**		**Effective interest rate (%)**	
	Turkish Lira	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**
Balances with Central Bank	28,203	289,634	1.5	-	67,314	333,768	-	-
Due from banks	38,321	45,318	10.5 – 11.5	0.1 – 0.5	43,317	33,086	7.8 – 9.8	0.5 – 1.4
Cash collateral on reverse repurchase agreements	75,023	-	11.2	-	-	-	-	-
Money market placements	11,003	-	11.0	-	-	-	-	-
Total	**152,550**	**334,952**			**110,631**	**366,854**		

(Currency – In thousands of Turkish Lira (TL))

6. CASH AND CASH EQUIVALENTS (continued)

Balances with Central Bank include:

	31 December 2014		**31 December 2013**	
	Turkish Lira	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**
Unrestricted demand deposits	28,203	157,654	67,314	185,685
Restricted reserve requirements	-	131,980	-	148,083
Total	**28,203**	**289,634**	**67,314**	**333,768**

According to the regulations of the Central Bank of Turkish Republic ("the Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day-to-day operations.

As at 31 December 2014, reserve deposit rates applicable for Turkish Lira liabilities are as follows:

TL Liabilities	**Required Reserve Ratio (%)**
Demand deposits, notice deposits, private current accounts	11.5
Deposits/participation accounts up to 1 month maturity	11.5
Deposits/participation accounts up to 3 months maturity	11.5
Deposits/participation accounts up to 6 months maturity	8.5
Deposits/participation accounts up to 1 year maturity	6.5
Deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts	5.0
TL other liabilities accounts up to 1 year maturity (including 1 year)	11.5
TL other liabilities accounts up to 3 years maturity (including 3 years)	8.0
TL other liabilities longer than 3 years maturity	5.0

Turkish Lira balances are included in "Balances with Central Bank".

As at 31 December 2014, reserve deposit rates applicable for foreign currency liabilities are as follows:

Foreign Currency Liabilities	**Required Reserve Ratio (%)**
FC demand deposits, notice deposits, foreign currency private current accounts	13.0
FC Deposits/participation accounts up to 1 month maturity	13.0
FC Deposits/participation accounts up to 3 month maturity	13.0
FC Deposits/participation accounts up to 6 month maturity	13.0
FC Deposits/participation accounts up to 1 year maturity	13.0
FC deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts	9.0
Other foreign currency accounts up to 1 year maturity (including 1 year)	13.0
Other foreign currency accounts up to 3 years maturity (including 3 years)	11.0
Other foreign currency accounts longer than 3 years maturity	6.0

Starting from November 2014, interest is paid on reserve requirements held in TL. As at 31 December 2014 and 2013, no interest is applied for reserve requirements held in FC.

(Currency – In thousands of Turkish Lira (TL))

7. TRADING SECURITIES

	31 December 2014		31 December 2013	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Debt instruments				
Eurobonds issued by the Turkish government	425	0.8 – 5.1	393	1.9 – 7.1
Other instruments				
Equity securities	36	-	37	-
Mutual funds	2,017	-	1,051	-
Total trading securities	**2,478**		**1,481**	

Trading debt securities have fixed rates.

As at 31 December 2014 and 2013, none of the trading securities are kept as collateral or guarantee.

8. INVESTMENT SECURITIES

Available for Sale Securities

	31 December 2014		31 December 2013	
	Amount	Effective Interest Rate (%)	Amount	Effective Interest Rate (%)
Equity instruments				
Equity securities	160	-	160	-
Debt instruments				
Turkish government bonds	199,370	6.3 – 12.6	381,358	5.9 – 10.6
Eurobonds issued by Turkish government	33	4.3 – 6.3	56	4.3 – 6.3
Other debt securities	4,164	5.8	7,374	6.0 – 13.5
Total available for sale securities at fair value	**203,727**		**388,948**	

As at 31 December 2014, TL 175,613 (2013 – TL 329,123) of available for sale securities has floating interest rates and the remaining portion has fixed rates.

The movement in available for sale securities is summarized as follows:

Available for Sale Securities	**2014**	**2013**
At 1 January	388,948	329,402
Foreign exchange differences	306	1,212
Purchases	71,083	140,841
Disposals and revaluation differences (sale or redemption)	(256,610)	(82,507)
At 31 December	**203,727**	**388,948**

As at 31 December 2014, TL 10,217 (2013 – TL 17,054) of available-for-sale securities is kept as a guarantee for stock exchange and other money market operations.

(Currency – In thousands of Turkish Lira (TL))

8. INVESTMENT SECURITIES (continued)

Available for Sale Securities (continued)

As at 31 December 2014 and 2013, certain portion of available for sale securities is pledged under repurchase agreements. Carrying value of securities pledged under repurchase agreements and carrying value of liabilities that are related to such securities are as follows:

	31 December 2014	31 December 2013
Carrying value of securities pledged under repurchase agreements	64,480	270,193
Carrying value of liabilities of such securities	64,359	258,597

Repurchase agreements mature within one month.

Gains and losses from investment securities comprise of TL 8,995 for derecognition of available for sale securities for the year ended 31 December 2014 (2013 – TL 1,132).

Held to Maturity Securities

As at 31 December 2014 and 2013, there are no securities classified under held to maturity portfolio.

9. LOANS AND ADVANCES

	31 December 2014						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,743,999	428,990	180,301	2,353,290	5.8-20.3	1.9-9.0	2.8-10.3
Consumer loans	343,448	5,601	2,798	351,847	6.6-22.3	7.4	5.0-8.1
Credit cards	27,028	390	-	27,418	15.0-34.0	-	-
Specialized loans	14,422	-	-	14,422	11.2-16.8	-	-
Investment loans	18,376	-	-	18,376	11.9-38.3	-	-
Total loans	2,147,273	434,981	183,099	2,765,353			
Loans under follow-up	158,212	-	-	158,212			
Less: Allowance for losses on loans and advances	(150,571)	-	-	(150,571)			
Total	**2,154,914**	**434,981**	**183,099**	**2,772,994**			

	31 December 2013						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,545,984	585,433	229,362	2,360,779	5.5-33.3	2.4-9.5	3.6-10.4
Consumer loans	322,814	8,958	4,841	336,613	6.6-25.2	7.4	5.3-8.7
Credit cards	34,767	381	-	35,148	15.0-34.0	-	-
Specialized loans	22,905	-	-	22,905	11.2-16.6	-	-
Investment loans	30,536	-	-	30,536	12.0-57.4	-	-
Total loans	1,957,006	594,772	234,203	2,785,981			
Loans under follow-up	179,800	-	-	179,800			
Less: Allowance for losses on loans and advances	(164,041)	-	-	(164,041)			
Total	**1,972,765**	**594,772**	**234,203**	**2,801,740**			

(Currency – In thousands of Turkish Lira (TL))

9. LOANS AND ADVANCES (continued)

The portfolio reserve amounting to TL 39,924 (2013 – TL 30,424) for impairment is provided based on past experience, management's assessments of the current economic conditions and the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

Movements in the allowance for impairment	**2014**	**2013**
Specific allowance for impairment		
Allowance at beginning of year	133,617	92,969
Charge for the year	36,749	47,200
Recoveries	(6,050)	(6,349)
Provision net of recoveries	30,699	40,851
Loans written off during the year and other adjustments (*)	(53,669)	(203)
Balance at 31 December	110,647	133,617
Collective allowances for impairment		
Allowance at beginning of year	30,424	21,742
Charge for the year	9,500	8,682
Balance at 31 December	39,924	30,424
Total allowances for impairment	**150,571**	**164,041**

Reconciliation of provision for impairment of loans and advances	**2014**	**2013**
Impairment loss for specific allowances	30,699	40,851
Impairment loss for collective allowances	9,500	8,682
Total provision net of recoveries – for cash loans	40,199	49,533
Provision net of recoveries – for non-cash loans and commitments (Note 15)	852	2,837
Total provision for impairment of loans and advances	41,051	52,370

(*) In the current period, the Parent Bank has sold a portion of its non-performing loans. The transaction includes the sale of receivables with an amount of TL 83,112, comprising of gross non-performing loans amounting to TL 56,786 and receivables written-off in the previous periods amounting to TL 26,326, to asset management companies for a total amount of TL 1,700. The provision amount written of regarding such transaction is TL 55,149.

In addition, TL 1,480 provision for indemnified non-cash loans for which provision has been booked on other provisions account on the liability side in prior period has been transferred to specific allowances account in the current period.

As at 31 December 2014, the amount of loans and advances, on which interest is not being accrued or where interest is suspended, is TL 158,212 (2013 – TL 179,800).

As at 31 December 2014, TL 770,684 (2013 – TL 793,003) of loans and advances have floating interest rates and the remaining portion has fixed rates.

(Currency – In thousands of Turkish Lira (TL))

10. PROPERTY AND EQUIPMENT

	Buildings	**Furniture and Office Equipment**	**Leased Assets**	**Motor Vehicles**	**Total**
At 1 January 2014					
Net of accumulated depreciation and impairment	11,730	4,676	21	18	16,445
Additions	-	11,828	-	-	11,828
Disposals, net (**)	-	(334)	(1)	-	(335)
Revaluation and impairment, net	2,096	-	-	-	2,096
Depreciation charge for the year	(196)	(2,994)	(13)	(10)	(3,213)
At 31 December 2014, net of accumulated depreciation and impairment	**13,630**	**13,176**	**7**	**8**	**26,821**
At 1 January 2014					
Cost	9,879	27,334	6,427	117	43,757
Revaluation and impairment, net (*)	5,132	-	-	-	5,132
Accumulated depreciation	(3,281)	(22,658)	(6,406)	(99)	(32,444)
Net carrying amount	**11,730**	**4,676**	**21**	**18**	**16,445**
At 31 December 2014					
Cost	9,879	33,347	3,252	117	46,595
Revaluation and impairment, net (*)	7,228	-	-	-	7,228
Accumulated depreciation	(3,477)	(20,171)	(3,245)	(109)	(27,002)
Net carrying amount	**13,630**	**13,176**	**7**	**8**	**26,821**

(*) As at 31 December 2014, there is TL 7,228 revaluation surplus on buildings (2013 – TL 5,132). Such revaluation surplus is identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third party appraiser commissioned by BRSA and Capital Markets Board.

(**) The cost and accumulated depreciation of disposed assets as at 31 December 2014 are as follows:

At 31 December 2014	**Buildings**	**Furniture and Office Equipment**	**Leased Assets**	**Motor Vehicles**	**Total**
Cost	-	5,815	3,175	-	8,990
Revaluation surplus	-	-	-	-	-
Accumulated depreciation and impairment	-	(5,481)	(3,174)	-	(8,655)
Net disposal amount	-	334	1	-	335

(Currency – In thousands of Turkish Lira (TL))

10. PROPERTY AND EQUIPMENT (continued)

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2013					
Net of accumulated depreciation and impairment	88,920	5,235	34	27	94,216
Additions	-	769	-	-	769
Disposals, net (*)	(78,000)	(31)	-	-	(78,031)
Revaluation and impairment, net	1,007	-	-	-	1,007
Depreciation charge for the year	(197)	(1,297)	(13)	(9)	(1,516)
At 31 December 2013, net of accumulated depreciation and impairment	**11,730**	**4,676**	**21**	**18**	**16,445**
At 1 January 2013					
Cost	74,472	29,293	6,499	479	110,743
Revaluation and impairment, net	35,175	-	-	-	35,175
Accumulated depreciation	(20,727)	(24,058)	(6,465)	(452)	(51,702)
Net carrying amount	**88,920**	**5,235**	**34**	**27**	**94,216**
At 31 December 2013					
Cost	9,879	27,334	6,427	117	43,757
Revaluation and impairment, net	5,132	-	-	-	5,132
Accumulated depreciation	(3,281)	(22,658)	(6,406)	(99)	(32,444)
Net carrying amount	**11,730**	**4,676**	**21**	**18**	**16,445**

(*) The cost and accumulated depreciation of disposed assets as at 31 December 2013 are as follows:

At 31 December 2013	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
Cost	64,593	2,728	72	362	67,755
Impairment	31,050	-	-	-	31,050
Accumulated depreciation and impairment	(17,643)	(2,697)	(72)	(362)	(20,774)
Net disposal amount	78,000	31	-	-	78,031

There are no capitalized borrowing costs related to the acquisition of the property and equipment during the year (2013: None).

11. INTANGIBLE ASSETS

Software Licenses and Other	2014	2013
Beginning of the year, net of accumulated amortization	1,902	1,625
Additions	687	750
Disposals, net	-	-
Amortization charge for the year	(615)	(473)
At the end of the year, net of accumulated amortization	**1,974**	**1,902**
At beginning of the year		
Cost	18,965	18,318
Accumulated amortization	(17,063)	(16,693)
Net carrying amount	**1,902**	**1,625**
At end of the year		
Cost	19,652	18,965
Accumulated amortization	(17,678)	(17,063)
Net carrying amount	**1,974**	**1,902**

(Currency – In thousands of Turkish Lira (TL))

12. OTHER ASSETS

	31 December 2014	31 December 2013
Transitory receivables (*)	40,427	31,818
Collaterals given	23,032	14,849
Assets to be disposed of (**)	11,190	7,316
Prepaid income taxes	2,292	3,134
Prepaid expenses	1,508	1,205
Receivables from credit cards and debit cards	419	423
Payments for mutual funds	365	2
Office supply inventory	363	316
Others	4,086	10,362
	83,682	**69,425**

(*) Transitory receivables mainly include receivables from clearing house of cheques.

(**) Assets to be disposed of account comprise mainly property, acquired from defaulted loan customers and will be mainly realized through sale. The movement of assets to be disposed of is as follows:

	2014	2013
Opening balance at 1 January	7,316	12,156
Additions	10,077	3,233
Disposals, net	(6,027)	(7,742)
Net (charge) / reversal of provision for impairment	(176)	(331)
Closing balance at 31 December	**11,190**	**7,316**

As at 31 December 2014, the impairment on assets to be disposed of account, which is based on independent appraisal reports, amounts to TL 661 (2013 – TL 1,638). The amount of reversal of impairment for the items disposed is TL 1,153 (2013 – TL 829).

13. DEPOSITS

Due to Banks

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	29	1	-	-	8	11	-	-
Time	-	164,997	-	0.2 – 1.5	-	-	-	-
Total	**29**	**164,998**			**8**	**11**		

(Currency – In thousands of Turkish Lira (TL))

13. DEPOSITS (continued)

Deposits

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	18,821	17,340	-	-	13,481	13,769	-	-
Time	879,978	535,644	4.5 – 14.8	0.1 – 3.0	840,179	616,771	2.0 – 9.9	0.3 – 3.6
	898,799	**552,984**			**853,660**	**630,540**		
Commercial and other								
Demand	73,817	29,406	-	-	97,345	56,070	-	-
Time	382,352	404,875	4.5 – 11.9	0.1 – 2.8	298,910	585,269	2.0 – 9.9	0.3 – 3.6
	456,169	**434,281**			**396,255**	**641,339**		
Total	**1,354,968**	**987,265**			**1,249,915**	**1,271,879**		

Other Money Market Deposits

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
Due to customers	13	-	6.0	-	474	-	3.5	-
Due to banks & mutual funds	64,346	-	8.3 - 10.1	-	258,123	-	4.5 - 7.8	-
Total	**64,359**	**-**			**258,597**	**-**		

14. FUNDS BORROWED

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Short term (*)								
Fixed interest	35,174	264,727	6.3-9.2	1.0-2.7	23,831	296,238	4.8-7.3	1.8-3.7
Floating interest	-	-	-	-	-	-	-	-
Medium/long term (*)								
Fixed interest	935	47,267	5.3-5.8	1.3-3.1	15,900	5,031	5.3-7.8	1.5-4.5
Floating interest	-	-	-	-	-	-	-	-
Total	**36,109**	**311,994**			**39,731**	**301,269**		

(*) The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

(Currency – In thousands of Turkish Lira (TL))

14. FUNDS BORROWED (continued)

Repayments of medium/long term borrowing are as follows:

	31 December 2014	31 December 2013
2014	-	17,191
2015	48,202	3,740
Total	**48,202**	**20,931**

The Group did not have any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2014 (2013 – None).

Funds borrowed consists of funds obtained from Turkish Eximbank to finance certain export loans given to customers under prevailing regulations and funds obtained from foreign banks and financial institutions. The Group had borrowed a total amount of TL 699,700 during year 2014 (2013 – TL 711,743) and paid a total amount of TL 692,818 (2013 – TL 619,522). As at 31 December 2014 there is no syndicated loan facility (2013 – None).

Finance Leases:

As at 31 December 2014 and 2013, the Group has no finance lease obligations.

As at 31 December 2014 and 2013, the Group does not have any obligations from operational lease agreements.

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS

	31 December 2014	31 December 2013
Other liabilities		
Transfer orders	50,458	45,266
Taxes and funds payable	7,393	6,836
Payables for credit card settlements	4,283	5,910
Transitory payables	2,441	5,571
Blocked checks and other blockage items	1,978	2,623
Advances taken	234	217
Others	8,321	7,980
	75,108	**74,403**
Employee benefits		
Employee termination benefits	7,153	5,515
Employee vacation pay liability	3,882	3,679
	11,035	**9,194**
Provisions		
Provision for non-cash loans not indemnified	6,628	7,256
Provisions against lawsuits	3,248	5,382
	9,876	**12,638**
Total	**96,019**	**96,235**

(Currency – In thousands of Turkish Lira (TL))

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

Employee Termination Benefits

The movement in provision for employee termination benefits is as follows:

	2014	2013
At 1 January	5,515	5,260
Interest cost	475	330
Effects of change in actuarial assumptions	708	(314)
Paid during the year	(1,361)	(744)
Current service cost	1,816	983
At 31 December	**7,153**	**5,515**

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3.44 and TL 3.25 at 31 December 2014 and 2013, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2014 and 2013, the Group reflected a liability based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the date of financial position.

The principal actuarial assumptions used at the dates of financial position are as follows:

31 December	2014	2013
Discount rate	8.00	10.77
Expected rates of salary/limit increases	6.00	6.00

In the current period, actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated statement of comprehensive income, the prior year actuarial gains / losses were recognized in the consolidated income statement.

The movement in provision for employee vacation liability is as follows:

	2014	2013
At 1 January	3,679	3,358
Paid during the year	(192)	(207)
Current service cost	395	528
At 31 December	**3,882**	**3,679**

Provisions

As at 31 December 2014, the Group has provided TL 6,628 provision due to non-cash loans and irrevocable commitments that are not indemnified yet, however whose cash loan balances are impaired (2013 – TL 7,256).

As at 31 December 2014, the Group has provided TL 3,248 provision due to certain lawsuits filed against the Group (2013 – TL 5,382).

(Currency – In thousands of Turkish Lira (TL))

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

The movement in provision for non-cash loans not indemnified is as follows:

	2014	2013
At 1 January	7,256	4,419
Charge for the year	1,472	3,084
Recoveries	(620)	(247)
Transfer to specific allowances (Note 9)	(1,480)	-
At 31 December	**6,628**	**7,256**

The movement in provision against lawsuits is as follows:

	2014	2013
At 1 January	5,382	2,404
Charge for the year	1,386	4,830
Paid during the year	(3,520)	(1,852)
At 31 December	**3,248**	**5,382**

16. INCOME TAXES

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, corporate tax rate is 20%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end date of financial position and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

The Bank and its subsidiary, Tekstil Yatırım, are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

Major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	2014	2013
Consolidated income statement		
Current income tax expense	2,077	4,643
Deferred income tax expense / (income)		
Relating to origination and reversal of temporary differences and tax loss	(1,363)	(2,152)
Income tax expense reported in the consolidated income statement	**714**	**2,491**

(Currency – In thousands of Turkish Lira (TL))

16. INCOME TAXES (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2014 and 2013 is as follows:

	2014	2013
Profit before Income Tax	2,942	41,819
At Turkish statutory income tax rate of 20%	588	8,364
Tax exempt income	(502)	(6,214)
Non-deductible expenses	349	934
Others, net	279	(593)
Income tax expense	**714**	**2,491**

Deferred Income Tax

Deferred income tax at 31 December 2014 and 2013 relates to the following:

	Consolidated Statement of Financial Position		Recognized under Statement of Comp. Income & Equity	
	31 Dec 2014	**31 Dec 2013**	**2014**	**2013**
Deferred income tax liabilities				
Valuation and depreciation differences of property and equipment	352	230	(122)	1,417
Valuation differences of securities	-	2	2	9
Valuation differences of derivatives	1,410	1,510	100	(1,356)
Others	88	280	192	(280)
Gross deferred income tax liabilities	**1,850**	**2,022**	**172**	**(210)**
Deferred income tax assets				
Liability for employee termination benefits and unused vacation pay liability	2,207	1,838	369	115
Reserve for loan losses	7,985	5,632	2,353	1,284
Valuation differences of securities	1	43	(42)	20
Others	1,379	2,836	(1,457)	901
Gross deferred income tax assets	**11,572**	**10,349**	**1,223**	**2,320**
Deferred income taxes, net	**9,722**	**8,327**	**1,395**	**2,110**

Movement of net deferred tax asset/liability can be presented as follows:

	2014	2013
Deferred tax asset, net at 1 January	8,327	6,217
Deferred income tax recognized under profit or loss	1,363	2,152
Deferred income tax recognized under shareholders' equity (*)	32	(42)
Deferred tax asset, net at 31 December	**9,722**	**8,327**

(*) The change in deferred tax asset/liability of TL 32, recognized under shareholders' equity, consists of TL 141 resulting from actuarial losses, TL (105) resulting from the revaluation surplus on buildings and TL (4) resulting from valuation differences of securities. Additionally, TL 405 income tax expense, resulting from gain on securities, is recognized under shareholders' equity.

(Currency – In thousands of Turkish Lira (TL))

16. INCOME TAXES (continued)

Current Income Tax Payable

Income tax payable at 31 December 2014 and 2013 is as follows:

	31 December 2014		31 December 2013	
	Parent Bank	**Subsidiary**	**Parent Bank**	**Subsidiary**
Current income tax charge	2,040	442	-	436
Prepaid income taxes	(4,332)	(292)	(3,134)	(327)
Income tax payable, net	**-**	**150**	**-**	**109**
Prepaid income taxes, net	**(2,292)**	**-**	**(3,134)**	**-**

17. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	31 December 2014		31 December 2013	
	Fair value assets	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Derivatives held for trading				
Forward currency purchases and sales	55	76	1,351	1,721
Currency swap purchases and sales (*)	12,730	5,659	10,563	1,100
Options purchases and sales	-	-	2,604	3,371
Total	**12,785**	**5,735**	**14,518**	**6,192**

(*) Includes TL 574 of fair value asset and TL 115 fair value liabilities resulted from precious metal swap purchase and sales transaction (2013 – TL 854 fair value asstes and TL 99 fair value liabilities).

The fair values of derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As at 31 December 2014 and 2013, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

(Currency – In thousands of Turkish Lira (TL))

17. DERIVATIVES (continued)

The table below shows the notional amounts of derivative instruments analyzed by currency:

31 December 2014	**Turkish Lira**	**US Dollars**	**Euro**	**Others**	**Total**
Purchases / inflows					
Currency forwards	5,532	5,401	423	193	11,549
Currency swaps	1,236	521,522	320,714	8,237	851,709
Other derivative transactions	-	-	-	22,054	22,054
Sales / outflows					
Currency forwards	3,956	5,873	897	863	11,589
Currency swaps	469,467	329,599	-	2,582	801,648
Other derivative transactions	-	-	-	66,162	66,162
Total of purchases / inflows	6,768	526,923	321,137	30,484	885,312
Total of sales / outflows	473,423	335,472	897	69,607	879,399
Net notional position	**(466,655)**	**191,451**	**320,240**	**(39,123)**	**5,913**

31 December 2013	**Turkish Lira**	**US Dollars**	**Euro**	**Others**	**Total**
Purchases / inflows					
Currency forwards	34,152	47,710	37,043	17,688	136,593
Currency swaps	22,536	408,799	167,381	17,973	616,689
Currency options	34,007	22,275	15,853	4,654	76,789
Other derivative transactions	-	-	-	20,571	20,571
Sales / outflows					
Currency forwards	62,472	48,734	17,693	7,156	136,055
Currency swaps	313,489	220,491	6,313	26,177	566,470
Currency options	26,564	21,421	24,663	4,654	77,302
Other derivative transactions	-	-	-	61,714	61,714
Total of purchases / inflows	90,695	478,784	220,277	60,886	850,642
Total of sales / outflows	402,525	290,646	48,669	99,701	841,541
Net notional position	**(311,830)**	**188,138**	**171,608**	**(38,815)**	**9,101**

The table below shows the the notional amounts of derivative instruments analyzed by the term to maturity:

31 December 2014	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency forwards:						
Purchases / inflows	7,269	1,897	2,383	-	-	11,549
Sales / outflows	7,254	1,956	2,379	-	-	11,589
Currency swaps:						
Purchases / inflows	746,838	104,871	-	-	-	851,709
Sales / outflows	694,133	107,515	-	-	-	801,648
Other transactions:						
Purchases / inflows	22,054	-	-	-	-	22,054
Sales / outflows	66,162	-	-	-	-	66,162
Total of purchases / inflows	776,161	106,768	2,383	-	-	885,312
Total of sales / outflows	767,549	109,471	2,379	-	-	879,399
Total of transactions	**1,543,710**	**216,239**	**4,762**	**-**	**-**	**1,764,711**

(Currency – In thousands of Turkish Lira (TL))

17. DERIVATIVES (continued)

31 December 2013	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency forwards:						
Purchases / inflows	56,385	77,855	2,353	-	-	136,593
Sales / outflows	56,177	77,529	2,349	-	-	136,055
Currency swaps:						
Purchases / inflows	504,032	86,229	-	26,428	-	616,689
Sales / outflows	455,698	84,411	-	26,361	-	566,470
Currency options:						
Purchases / inflows	51,367	19,366	6,056	-	-	76,789
Sales / outflows	51,364	19,595	6,343	-	-	77,302
Other transactions:						
Purchases / inflows	20,571	-	-	-	-	20,571
Sales / outflows	61,714	-	-	-	-	61,714
Total of purchases / inflows	632,355	183,450	8,409	26,428	-	850,642
Total of sales / outflows	624,953	181,535	8,692	26,361	-	841,541
Total of transactions	**1,257,308**	**364,985**	**17,101**	**52,789**	**-**	**1,692,183**

18. SHARE CAPITAL

	31 December 2014	**31 December 2013**
Number of common shares, TL 0.1 (in full TL), par value (Authorized and issued)	4,200,000,000	4,200,000,000

As at 31 December 2014 and 2013, the Bank's subscribed and issued share capital in historical terms are TL 420,000.

There is no share capital increase during the years ended 31 December 2014 and 2013.

As at 31 December 2014 and 2013, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

	31 December 2014		**31 December 2013**	
	Amount	**%**	**Amount**	**%**
GSD Holding A.Ş.	317,101	75.50	317,101	75.50
Publicly held (*)	102,899	24.50	102,899	24.50
Total	**420,000**	**100.00**	**420,000**	**100.00**

(*) TL 4,356 nominal shares (1.04%) are owned by other GSD group companies.

The 70% of share capital of the Parent Bank consist of Type A shares and the remaining consist of Type B shares. Three out of five members of the Board of Directors are appointed by Type A shareholders and the remaining two are appointed by Type B shareholders. There is no other privilege appointed. 65.5% of Type A shares and all of the Type B shares belong to GSD Holding A.Ş.

(Currency – In thousands of Turkish Lira (TL))

19. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

	2014			**2013**		
	Legal Reserves	**Retained Earnings (**)**	**Total**	**Legal Reserves**	**Retained Earnings (**)**	**Total**
At 1 January	**8,572**	**167,585**	**176,157**	**7,151**	**100,181**	**107,332**
Net profit for the year	-	2,228	2,228	-	39,328	39,328
Transfer from retained earnings	2,261	(2,261)	-	1,421	(1,421)	-
Transfer from revaluation surplus (*)	-	-	-	-	29,497	29,497
At 31 December	**10,833**	**167,552**	**178,385**	**8,572**	**167,585**	**176,157**

(*) The Parent Bank sold its heaquarters building in 2013. Regarding this building, the revaluation surplus in the "Revaluation surplus on buildings" account under equity as of December 31, 2012, amounting to TL 29,497 remaining after deducting the tax effect of TL 1,553, was transferred to "Retained earnings" under equity in the consolidated financial statements.

(**) The amount of retained earnings not subject to distribution to shareholders due to current tax legislation is TL 57,780, which is mainly related to the gain resulted from the sale of headquarters building.

Legal Reserves

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

20. DIVIDENDS PAID AND PROPOSED

As at 31 December 2014 and 2013, the Group did not distribute any dividends to shareholders in respect of 2013 and 2012 profits.

21. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation, such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are regarded similarly. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2014.

There is no dilution of the shares as at 31 December 2014 and 2013.

The following reflects the income (in Kurus) and share data used in the basic earnings per share computations:

	2014	**2013**
Net profit attributable to ordinary equity holders of the parents for basic earnings per share	0.05	0.94
Weighted average number of ordinary shares for basic earnings per share	4,200,000,000	4,200,000,000

(Currency – In thousands of Turkish Lira (TL))

22. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by GSD Holding A.Ş. which owns 75.50% (2013 – 75.50%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and GSD Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

The summary of related party balances and results of transactions are presented below:

Related Party		Cash Loans & Due From Banks	Non-cash Loans	Deposits Taken	Notional Amount of Derivative Transactions	Interest Income	Interest Expense	Other Operating Income	Other Operating Expense
Shareholders (*)	2014	36	-	3	-	10	12	2	42
	2013	33	-	681	-	-	137	3	38
Others (**)	2014	69,005	517	28,546	-	2,509	912	90	1,087
	2013	48,853	364	43,922	-	1,187	1,305	99	1,159
Directors' interests	2014	183	-	17,269	-	-	1,112	-	5,984
	2013	164	-	13,485	8,409	-	653	-	5,634

(*) Shareholders represent only GSD Holding A.Ş.

(**) Others represent the shareholders and group companies of GSD Holding A.Ş. As at 31 December 2014, cash loans mainly include TL 26,335 (2013 – TL 3,353) loans granted to GSD Denizcilik Gayrimenkul İnşaat San. Tic. A.Ş. (GSD Marin), TL 20,368 (2013 – TL 470) loans granted to GSD Faktoring A.Ş., TL 300 (2013 – TL 28,470) due from bank balances from GSD Yatırım Bankası A.Ş. As at 31 December 2014, deposits taken mainly include TL 16,845 (2013 – TL 30,620) due to individual shareholders of GSD Holding A.Ş. and TL 1,833 due to GSD Marin (2013 – TL 1,655 due to GSD Dış Ticaret A.Ş.).

In addition to the balances represented above, the Parent Bank has TL 1,649 irrevocable commitment to related parties as at 31 December 2014 (2013 – TL 1,510).

Compensation of Key Management Personnel of the Group

For the year ended 31 December 2014, the executive and non-executive members of the Board of Directors and management received remuneration and fees totaling approximately TL 5,984 (2013 – TL 5,634) comprising salaries and other short-term benefits.

23. FEE AND COMMISSION INCOME AND EXPENSE

	2014	2013
Fee and commission income		
Letters of guarantee	8,102	9,761
Letters of credit, acceptance credits and other guarantees	384	885
Total	**8,486**	**10,646**
Fees and commission expense		
Corresponding bank fees and other commissions	4,924	4,274
Total	**4,924**	**4,274**

(Currency – In thousands of Turkish Lira (TL))

24. INCOME FROM BANKING SERVICES

	2014	2013
Income from credit cards	3,262	2,861
Charges regarding account transactions	1,034	1,417
Income from insurance brokerage	861	853
Charges regarding fund transfers	782	864
Income from check transactions	576	625
Income from fund management	482	681
Others	6,767	9,954
Total	**13,764**	**17,255**

25. NET TRADING INCOME

	2014	2013
Gain from derecognition of available-for-sale securities	8,995	1,132
Commissions from capital market transactions	6,603	6,296
Net trading income from derivative and currency transactions	2,493	2,939
Other gain/(loss)	71	(497)
Total	**18,162**	**9,870**

26. OTHER INCOME

	2014	2013
Income from sale of property, equipment and assets to be disposed of (*)	2,340	50,783
Collections from loans written off in prior years	1,728	1,304
Others	1,633	3,207
Total	**5,701**	**55,294**

(*) The Parent Bank has sold its headquarters building in 2013. TL 47,168 gain resulting from this sale is presented here.

27. SALARIES AND EMPLOYEE BENEFITS

	2014	2013
Personnel expenses		
Wages and salaries	61,941	56,963
Other fringe benefits	10,033	9,175
Employers’ share of social security premiums	7,594	6,664
Provision for employee termination benefits and unused vacation pay liability	1,133	576
Total	**80,701**	**73,378**

(Currency – In thousands of Turkish Lira (TL))

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
Operating lease expenses	18,634	12,287
Communication expenses	3,982	3,331
Maintenance expense	2,294	1,684
Transportation expenses	2,069	2,140
Cleaning and other residential expenses	2,001	1,739
Heating and lighting expenses	1,970	2,042
Printing and stationary expenses	583	609
Computer expenses	559	481
Advertising expenses	502	392
Hospitality and representation expenses	392	260
Insurance expenses	156	167
Others	3,403	2,723
Total	**36,545**	**27,855**

29. OTHER EXPENSES

	2014	2013
Saving deposit insurance fund premium	3,396	3,071
Provision for litigations	1,386	4,830
Consultancy expenses	865	678
Loss on sale of fixed assets	331	67
Provision for impairment of buildings & assets to be disposed of	176	331
Others	2,395	2,109
Total	**8,549**	**11,086**

30. COMMITMENTS AND CONTINGENCIES

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

	31 December 2014	31 December 2013
Letters of guarantee	721,025	933,402
Letters of credit	107,643	228,971
Acceptance credits	276	1,458
Other guarantees	20,633	47,129
Total non-cash loans	**849,577**	**1,210,960**
Credit card limits	84,778	79,889
Other commitments	165,404	127,879
Total	**1,099,759**	**1,418,728**

30. COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of 1 to 10 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancelable operating leases.

Litigation

In the normal course of its operations, the Group can face with legal disputes, claims and complaints. The necessary provision for those cases is provided based on management estimates and professional advice. As at 31 December 2014, TL 3,248 provision is provided against such litigations (2013 – TL 5,382).

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

The Group also manages 5 open-ended mutual funds (2013 – 5 open-ended mutual funds), which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. The total fund value of these funds amounts to TL 39,027 as at 31 December 2014 (2013 – TL 47,427). Management fee and commission income received from mutual funds amounted to TL 482 and TL 999, respectively, for the year ended 31 December 2014 (2013 – TL 681 and TL 424).

As at 31 December 2014, the Group has investment custody accounts amounting to TL 186,116 (2013 – TL 165,765).

31. EVENTS AFTER THE REPORTING PERIOD

Parent Bank made a Material Event Disclosure on 20 February 2015 in the Public Disclosure Platform (KAP), briefly declaring that with respect to sale of 75.50% shares of the Tekstil Bankası A.Ş. – Parent Bank – owned by GSD Holding A.Ş. to Industrial Commercial Bank of China Limited (ICBC), permission process conducted by ICBC in the presence of public authorities in China and Banking Regulation and Supervision Agency (BRSA) proceeds in an ordinary progress, and additionally ICBC has pronounced to GSD Holding A.Ş. 2 new independent member candidates for board of directors of Tekstil Bankası A.Ş. to be submitted for the approval of General Assembly of Tekstil Bankası A.Ş. which will meet on the closing date of the sales transaction following the assessment of Capital Market Board (CMB).