KPMG

Alternatifbank Anonim Şirketi
and Its Subsidiaries

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

17 March 2015

This report contains the "Independent Auditors' Report on Consolidated Financial Statements" comprising 2 pages and; the "Consolidated financial statements and their explanatory notes" comprising 67 pages.

Alternatifbank Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Alternatifbank A.Ş.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Alternatifbank A.Ş. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 our 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, we consider 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 give a true and fair view of the consolidated financial position of the Group as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2013 was audited by another auditor who expressed an unmodified opinion on those statements on 24 March 2014.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Murat Alsan
Partner

17 March 2015
Istanbul, Turkey

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

		31 December 2014	31 December 2013
ASSETS			
Cash and balances with the Central Bank of Turkey	6	1,358,244	1,244,321
Loans and advances to banks	7	111,989	319,874
Financial assets held for trading			
- Trading securities	9	37,920	76,276
- Derivative financial instruments	9	36,277	150,716
Loans and advances to customers	10	7,833,897	6,366,187
Investment securities			
- Available-for-sale	*11*	*896,108*	*350,781*
- Held-to-maturity	*11*	-	*1,507,142*
Leasing Receivables	10	650,605	522,296
Other intangible assets	12	73,928	72,550
Property and equipment	13	31,601	32,267
Deferred income tax assets	18	41,482	37,881
Other assets	14	133,365	168,364
Total assets		**11,205,416**	**10,848,655**
LIABILITIES			
Deposits from banks	15	634,538	1,922,542
Due to customers	16	5,463,520	4,748,283
Other borrowed funds	17	2,535,573	2,365,914
Debt securities issued	18	868,098	289,079
Derivative financial instruments	9	12,429	105,375
Derivatives held for risk management	9	8,578	-
Other provisions	20	17,352	29,130
Retirement benefit obligations	21	4,836	4,891
Other liabilities	22	363,438	472,276
Subordinated liabilities	17	329,826	312,339
Total liabilities		**10,238,188**	**10,249,829**
EQUITY			
Share capital	23	620,000	420,000
Share premium	23	119	98
Own shares acquired	24	(3,296)	-
Fair value reserves	24	(6,154)	(40,824)
Legal reserves	24	20,052	15,165
Retained earnings	24	327,292	193,634
Equity attributable to owners of the Bank		**958,013**	**588,073**
Non-controlling interests		9,215	10,753
Total equity		**967,228**	**598,826**
Total liabilities and equity		**11,205,416**	**10,848,655**

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Note	31 December 2014	31 December 2013
Interest income	25	1,102,138	797,189
Interest expense	25	(627,752)	(384,744)
Net interest income		**474,386**	**412,445**
Fee and commission income	26	63,782	51,611
Fee and commission expense	26	(11,892)	(7,161)
Net fee and commission income		**51,890**	**44,450**
Foreign exchange gains and losses, net		(30,402)	(83,742)
Trading gains and losses, net	27	2,427	77,435
Gains / losses from investment securities, net		341	(1,074)
Other operating income		9,525	12,675
Operating income		**508,167**	**462,189**
Impairment losses on loans and credit related commitments, net		(64,515)	(147,556)
Other operating expenses	28	(274,410)	(248,562)
Profit before income tax		**169,242**	**66,071**
Income tax expense	19	(30,290)	(12,923)
Profit for the year		**138,952**	**53,148**
Attributable to:			
Equity holders of the Bank		138,720	53,166
Non-controlling interest		232	(18)
		138,952	**53,148**
Basic earnings per share attributable to the equity holders of the Bank (expressed in TL per thousand share)	2.27	0.2365	0.1266

The accompanying notes set out on pages 6 to 67 form an integral part of these consolidated financial statements.

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

	Note	2014	2013
Profit for the year		**138,952**	**53,148**
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available for sale financial assets		43,395	(71,163)
Available for sale financial assets transferred to profit or loss	26	(10,263)	6,270
Related tax	24	1,538	14,130
Other comprehensive income for the year, net of income tax		**34,670**	**(50,763)**
Total comprehensive income for the year		**173,622**	**2,385**
Profit attributable to:			
Equity holders of the Bank		173,390	2,403
Non-controlling interest	26	232	(18)

The accompanying notes set out on pages 6 to 67 form an integral part of these consolidated financial statements.

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

		Attributable to equity holders of the Bank								
	Note	Share capital	Share premium	Own Shares Acquired	Legal Reserves	Fair Value Reserves	Retained Earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2013		**420,000**	**98**	**-**	**11,529**	**9,939**	**143,517**	**585,083**	**15,811**	**600,894**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	53,165	53,165	(18)	53,147
Other comprehensive income										
Net change in available for sale investments, net of tax		-	-	-	-	(50,763)	-	(50,763)	-	(50,763)
Total other comprehensive income		-	-	-	-	(50,763)	-	(50,763)	-	(50,763)
Total comprehensive income for the year		-	-	-	-	**(50,763)**	**53,165**	**2,403**	**(18)**	**2,385**
Contributions by and distributions to owners										
Transfer to legal reserves		-	-	-	3,636	-	(3,048)	588	-	588
Capital Increase		-	-	-	-	-	-	-	-	-
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	(5,040)	(5,040)
Balance at 31 December 2013		**420,000**	**98**	**-**	**15,165**	**(40,824)**	**193,634**	**588,073**	**10,753**	**598,826**
Balance at 1 January 2014		**420,000**	**98**	**-**	**15,165**	**(40,824)**	**193,634**	**588,073**	**10,753**	**598,826**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	138,720	138,720	232	138,952
Other comprehensive income										
Net change in available for sale investments, net of tax		-	-	-	-	34,670	-	34,670	-	34,670
Total other comprehensive income		-	-	-	-	**34,670**	-	**34,670**	-	**34,670**
Total comprehensive income for the year		-	-	-	-	**34,670**	**138,720**	**173,390**	**232**	**173,622**
Contributions by and distributions to owners										
Transfer to legal reserves		-	-	-	4,887	-	(5,062)	(175)	-	(175)
Purchase from non-controlling interests		-	-	-	-	-	-	-	-	-
Capital Increase		200,000	21	-	-	-	-	200,021	-	200,021
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	(1,770)	(1,770)
Other		-	-	(3,296)	-	-		(3,296)		(3,296)
Balance at 31 December 2014		**620,000**	**119**	**(3,296)**	**20,052**	**(6,154)**	**327,292**	**958,013**	**9,215**	**967,228**

The accompanying notes set out on pages 6 to 67 form an integral part of these consolidated financial statements.

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

	Note	31 December 2014	31 December 2013
Cash flows from operating activities			
Interest received		1,233,958	795,864
Interest paid		(631,469)	(368,070)
Fees and commissions received		62,823	51,611
Trading income		1,261	85,146
Recoveries of loans previously written off		74,450	84,102
Fees and commissions paid		(11,892)	(7,161)
Cash payments to employees and other parties		(159,239)	(146,013)
Cash received from other operating activities		430,184	345,919
Cash paid for other operating activities		26,587	(282,762)
Taxes paid		(34,381)	(38,344)
Cash flows from operating profits before changes in operating assets and liabilities		**992,282**	**520,292**
Changes in operating assets and liabilities:			
Trading securities		38,539	(25,586)
Loans and advances		(1,743,687)	(1,706,111)
Other assets		(744,490)	(582,617)
Deposits from other banks		(44,691)	148,301
Deposits		719,614	650,189
Other money market deposits		(1,244,713)	(716,114)
Other liabilities		54,898	1,065,260
Net cash from operating activities		**(1,972,248)**	**(646,386)**
Cash flows from investing activities			
Purchases of available for sale securities		(235,844)	(8,578,924)
Proceeds from sale and redemption of available-for-sale securities		345,449	8,994,040
Purchases of held to maturity securities		(220,830)	(757,925)
Redemption of held to maturity securities		1,236,562	265,023
Purchases of premises and equipment		(11,782)	(15,458)
Proceeds from sale property and equipment		14,848	26,704
Purchase of intangible assets, net		(1,378)	(56,061)
Net cash from investing activities		**1,127,025**	**(122,601)**
Cash flows from financing activities			
Proceeds from funds borrowed		1,837,938	1,656,380
Payments for funds borrowed		(1,846,985)	(988,672)
Proceeds from bond issue		779,040	391,573
Payments for bonds issued		(200,000)	-
Share capital increase		200,000	-
Payments of finance lease liabilities		-	-
Net cash from financing activities		**769,993**	**1,059,281**
Net increase in cash and cash equivalents		**(75,230)**	**290,294**
Effects of foreign exchange-rate changes on cash and cash equivalents		(78,723)	(147,906)
Cash and cash equivalents at beginning of the year	5	**613,234**	**470,846**
Cash and cash equivalents at end of the year	5	**459,281**	**613,234**

The accompanying notes set out on pages 6 to 67 form an integral part of these consolidated financial statements.

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

NOTE 1 - GENERAL INFORMATION

Alternatifbank A.Ş. (a Turkish joint stock company - "the Bank") was incorporated in Istanbul on 6 November 1991 and started operations in February 1992. Bank's shares are traded on the Istanbul Stock Exchange since 3 July 1995.

The sale of the shares of the Bank belonging to Anadolu Group companies to The Commercial Bank of Qatar has been finalised on 18 July 2013 and the share transfer has been registered in accordance with the Board of Directors meeting at the same date. Following the collection of shares through takeover bid, currently 0.75% of the shares are publicly traded.

The Bank made an application to Capital Market Board and Borsa İstanbul A.Ş. about to leave the partnership and to start the process of removing the stock market according to Capital Market Board "Removing the Partnership and Selling Rights Communiqué"on 11 July 2014. In this scope, the Bank's shares which is traded on the National Market (ALNTF.E) began to be traded on the Second National Market on 1 August 2014. Delisting process is still ongoing as of 31 December 2014.

As of 31 December 2014, Commercial Bank of Qatar owns 74.25% of the Bank's shares. Current shareholder structure of the Bank is as follows:

	31 December 2014		31 December 2013	
Name of Shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
Commercial Bank of Qatar	460,341	74.25%	311,815	74.24%
Anadolu Endüstri Holding A.Ş.	106,683	17.21%	72,269	17.21%
Anadolu Motor Üretim ve Pazarlama A.Ş.	48,317	7.79%	32,731	7.79%
Borsa İstanbul Hisseleri ve Halka Açık Pay	4,659	0.75%	3,185	0.76%
Total	**620,000**	**100%**	**420,000**	**100%**

The registered office address of the Bank is at Cumhuriyet Caddesi No: 46 Elmadağ / Istanbul.

The consolidated financial statements of the Bank were authorized for issue by the management on 12 March 2015. The ultimate parent of the Bank is The Commercial Bank of Qatar.

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

The operations of the Group consist of banking, brokerage and portfolio management in capital markets conducted mainly with local customers.

The Bank provides banking services through 73 branches (31 December 2013: 73) in Turkey. At 31 December 2014, the Group has 1,340 employees (31 December 2013: 1,535).

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

NOTE 1 - GENERAL INFORMATION (Continued)

The subsidiaries and the Bank's shareholding included in consolidation and their shareholding percentages at 31 December 2014 and 2013 are as follows:

	Place of Incorporation	Effective shareholding % 31 December 2014	Effective shareholding % 31 December 2013
Alternatif Yatırım A.Ş. (1)	Istanbul/Turkey	99.99	99.99
Alternatif Yatırım Ortaklığı A.Ş. (2)	Istanbul/Turkey	65.5	65.5
Alternatif Portföy Yönetimi A.Ş (3)	Istanbul/Turkey	100.00	100.00
Alternatif Finansal Kiralama A.Ş. (4)	Istanbul/Turkey	99.99	99.99

The principal activities of the consolidated subsidiaries are as follows:

(1) Alternatif Yatırım A.Ş. renders brokerage and investment banking services to customers in line with the rules of the Capital Market Board of Turkey.

(2) Alternatif Yatırım Ortaklığı A.Ş. is a closed ended mutual fund managing portfolios which are made up of the capital market instruments according to the rules of the related regulation and the Capital Market Law. Alternatif Yatırım Ortaklığı A.Ş. is a subsidiary since the Bank has the power to govern the financial and operating policies of such subsidiary under a statute, to appoint or remove the majority of the members of the board of directors and to cast the majority of votes at the meetings of board of directors. The Bank holds also a golden share which leads to full control. The Bank applied entity concept method for the changes in ownership interests in this subsidiary. Therefore; where there is a subsequent increase in the ownership interest in this subsidiary, the carrying amount of the non-controlling interest is adjusted to reflect the change in its interest in the subsidiary's net assets. The difference between the amount by which the non-controlling interest is so adjusted and the consideration paid, if any, is recognized directly in equity and attributed to equity holders of the Bank. No goodwill is recognized on such a transaction.

With the Board of Directors dated on 17 March 2014 and numbered 1/A, the Parent Bank was decided to start necessary works about the dissolution and liquidation of the Alternatif Yatırım Ortaklığı A.Ş. In this process, it has been decided that the General Directorate was authorized for all related legal proceedings.

(3) Alternatif Portföy Yönetimi A.Ş was established with a paid in capital of TL 1,000 and registration of incorporation was declared in the Trade Registry on 1 February 2013. Alternatif Portföy Yönetimi A.Ş. is wholly owned by Alternatif Yatırım A.Ş. According to the conclusion of there will be no benefits by the continuing activities of Alternatif Portföy Yönetimi A.Ş. which is owned 100% by Alternatif Yatırım A.Ş., liquidation procedures has begun after the decision of board of Alternatif Portföy Yönetimi A.Ş. dated 27 August 2014. By the same date, application made to the Capital Markets Board.

(4) Alternatif Finansal Kiralama A.Ş. was established in February 1997, in order to operate in Turkey. The Company is mainly engaged in leasing of various equipment including industrial machinery and office equipment. In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş (AEH) and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency's authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased 2,727,259,500 shares amounting to 95.8% of Alternatif Finansal Kiralama A.Ş., the associate of AEH, with a consideration amount of TL 115,585 and 115,488,748 shares from other shareholders with a consideration amount of TL 4,894. The Bank has recognised TL 47,260 goodwill and TL 1,757 intangible assets on this transaction.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of Financial Statements

The Bank and its subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code.

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

The consolidated financial statements have been prepared under the historical cost convention, except for trading securities, available-for-sale securities and derivative financial instruments that have been measured at fair value.

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The following changes in accounting policies are also reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2014.

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

2.2 Basis of Consolidation

These consolidated financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The Bank also consolidates a subsidiary in which it has less than 50% shareholding since it has power to govern the financial and operating policies of such subsidiary under a statute, to appoint or remove the majority of the members of the board of directors and to cast the majority of votes at the meetings of board of directors.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Consolidation (Continued)

The equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position and statement of profit or loss, respectively.

All intra-group balances, transactions and unrealized gains on intra-group transactions are eliminated including inter-company profits and unrealized profits and losses. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2.3 Use of Estimates and Judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in related accounting policies (Note 3).

In preparing these consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

2.4 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional and the Group's presentation currency.

2.5 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

2.6 Due from Banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Furniture and fixtures and motor vehicles	2 years to 5 years
Office equipment	5 years
Leasehold improvements	5 years, or over the period of the lease if less than 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

An item of premises and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

2.8 Goodwill

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. The Group has TL 49,467 goodwill.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. 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. There is no impairment recorded related to intangible assets. 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. Patents and licenses mainly relate to software and were amortized over their useful economic lives of 5 years. Development costs for software were amortized over their useful economic useful lives of 5 years.

Gains or losses arising from de-recognition 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 income statement when the asset is derecognized.

2.10 Financial Assets

The Group classifies its financial assets in the following categories: trading securities; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. 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. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Trading Securities

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 as effective hedging instruments. Trading securities are initially recognised and subsequently re-measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Held- to- maturity securities

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

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

In 2014, the Bank has sold a significant portion of its securities, classified in held to maturity portfolio in 2013 amounting TL 1,727,927 before the maturity dates of such securities. Therefore the Bank will not classify its investment in held to maturity portfolio for two years beginning from 1 January 2015. Total value of the financial assets that are classified in available for sale portfolio is TL 654,932 as of 31 December 2014.

Available- for- sale securities

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

Dividends received are included in dividend income, if any.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 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, goods 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 income 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.

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognized in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method. Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability for amounts received under these agreements is included in deposits from banks.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ('reverse repos') are not recognized in the 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 the effective interest method.

Netting off Financial Assets and Liabilities

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

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its 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; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Recognition and Derecognition of Financial Instruments (Continued)

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, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.11 Impairment of Financial Assets

Financial assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans and held to maturity investments. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) Significant financial difficulty of the issuer or obliger;
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; or
e) 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 of financial assets.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of Financial Assets (continued)

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. Loans with principal and/or interest overdue for more than 90 days are considered as non-performing and are assessed for impairment.

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.

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 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 previously written off are included in income.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The Group calculates portfolio provision according to Incurred but not reported ("IBNR") model for performing loans, based on Basel II expected loss concept with intrinsic elements such as loss detection period, probability of default, loss given default and expert views. IBNR impairments on loans represent the provisions that are created not only for transaction on which loss events were individually identified, but also for these transactions where loss events have already occurred, but have not been reported yet. In such case provision is created in such proportion to the exposure that reflects the amount of losses that have been incurred as a result of the past but not reported events.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of Financial Assets (continued)

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 its recoverable amount. There is no impairment recorded related to assets carried at cost.
Available-for-sale financial assets

For available-for-sale financial investments, the Group assess at each reporting date if there is objective evidence that an investments is impaired.

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

2.12 Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank of Republic of Turkey, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2.13 Financial Liabilities

Financial liabilities including deposits from banks, due to customers and other borrowed funds are recognised initially at cost. Subsequently, financial liabilities are stated at amortised cost, including transaction costs, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

2.14 Employee Benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and are classified under "Reserve for Employee Rights" account in the statement of financial position.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation of the Group arising from this liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Employee Benefits (Continued)

According to the TAS 19 that is revised by Public Oversight Accounting and Auditing Standards Authority with the Communiqué published in Official Gazette on 12 March 2013 numbered 28585, in the calculation of the employment termination benefit liabilities of the Bank, the recognition option of the actuarial gains and losses derived from the changes in actuarial assumptions or the differences between actuarial assumptions and realizations in the income statement has been eliminated which is effective for annual periods beginning on or after 1 January 2013.

Defined Contribution Plans

For defined contribution plans the Group pays contributions to the Social Security Institution of Turkey 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.

2.15 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. 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 interest expense.

2.16 Share Capital

Share capital is recognized at the nominal amount and amounts received in excess of the par value are recognized in share premium account. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction.

2.17 Leases

The Group as the lessee

Finance leases

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Leases (Continued)

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

The Group as the lessor

Finance leases

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised.

Operating leases

Assets leased out under operating leases are included in investment property in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

2.18 Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, 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 but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. 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. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized over the period service is provided. Fee for bank transfers and other banking transaction services are recorded as income when collected. Borrowing fees and commissions expenses paid to other financial institutions are recognized as transaction costs and recorded using the "Effective interest rate method".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Income taxes currently payable

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 by the reporting date.

Taxes other than on income are recorded within operating expenses (Note 28).

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted, or substantively enacted, at the reporting date are used to determine deferred income tax. The principal temporary differences arise from measurement of financial assets and liabilities at fair value, loan loss provisions and provision for employment termination benefits.
Deferred income tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilised (Note 19).

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

2.20 Derivative Financial Instruments

The Group enters into transactions with derivative instruments 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 re-measured 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 income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value 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. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Derivative Financial Instruments (Continued)

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the reporting date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and re-pricing date are used. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not itself carried at fair value through profit or loss;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss as the hedged item).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Derivative Financial Instruments (Continued)

Fair value hedge (Continued)

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Group does not have any cash flow hedges or net investment hedges.

2.21 Provisions, contingent assets and contingent liabilities

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

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

2.22 Fiduciary Assets

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as originated loans. Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan.

2.24 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments

2.25 Related Parties

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the shareholders are considered and referred to as related parties (Note 32).

2.26 Adoption of new and revised standards

Standards issued but not yet effective and not early adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

- *IFRS 9 Financial Instruments*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements:

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cyscle.*

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Earnings per share

Earnings per share disclosed in the consolidated statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	31 December 2014	31 December 2013
Profit attributable to equity holders of the Bank	138,720	53,166
Weighted average number of ordinary shares in issue (thousand)	586,667	420,000
Basic earnings per thousand share (expressed in TL)	**0.2365**	**0.1266**

The Bank do not have diluted shares.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- **Note 4 (H)** – determination of the fair value of financial instruments with significant unobservable inputs;
- **Note 21** – measurement of defined benefit obligations: key actuarial assumptions;
- **Note 19** – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- **Note 12** – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and
- **Notes 10 and 20** – recognition and measurement of provisions.

NOTE 4 - FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities.

Risk Management is responsible for monitoring and managing all potential risks for the Bank in a centralized and efficiently coordinated manner. The primary goal of Risk Management is to provide business lines appropriate capital allocation for risks they are exposed to and increase value-added by maximizing risk adjusted return on capital. In this connection, each business line is geared to design appropriate cost-benefit schedule to maximize its return expectation with minimum cost of capital.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank's Risk Management Policy covers market, structural interest rate, credit, operational and liquidity risks management.

The risk management governance at the Bank starts with the Board of Directors. The Bank Risk Committee, Asset Liability Committee (ALCO), Credit Risk Committee (CRC), Market Risk Committee (MRC), Operational Risk Committee (ORC) and the Risk Management Department are the most important bodies of the risk management structure.

The Board of Directors determines the general risk policy and the risk appetite of the Bank. The Bank Risk Committee defines risk policies and strategies, reviews all types of risks the Bank is exposed to in its quarterly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board. The ALCO, meeting bi-weekly, is responsible for monitoring and managing any structural asset liability mismatch of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange rate risk. The CRC meets quarterly and is responsible for monitoring and evaluating the Bank's lending portfolio and determining principles and policies regarding credit risk management processes, such as loan approval, limit setting, rating, monitoring and problem management. The MRC is responsible for implementing risk policies regarding both the trading book and the investment book and establishing relevant control systems. In addition, it defines certain limits and regularly reviews these in order to limit and minimize the potential adverse effects of market conditions on the Bank's profitability and economic value. The ORC also meets quarterly and is responsible for reviewing the Bank's operational risks and defining the necessary actions to be taken to minimize these risks.

A. Credit risk

Credit risk is defined as the potential loss arising from a borrower's inability to meet its financial obligations to the Bank. Credit risk is the risk of highest concern due to its large presence on the statement of financial position. Consequently, the Bank's credit risk management framework was designed in a manner to ensure that non-performing loans are kept as low as possible. In order to keep the quality of the Bank's credit portfolio at a predefined level, the credit portfolio is regularly analysed and reported in terms of economic sectors, large exposures, rating distribution, collateral structure, non-performing loans amount, and other various aspects. In measuring credit risk, the Bank estimates the probability of default and the potential size of loss in the event of such default. Probability of default is generated by the Bank's internal rating tool and outputs for potential size of loss are derived from assessments of collateral quality and recovery rates. This grading process draws upon a scorecard containing quantitative and qualitative measures and the expertise of the Bank's credit officers. The validation and ongoing monitoring of the grading models are the responsibilities of the Risk Management Department and depending on validation results models are continuously reviewed and improved if necessary.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (continued)

Credit quality per class of financial assets is as follows;

a. Information on loans and receivables past due but not impaired:

31 December 2014	Corporate	SME	Consumer	Credit Card	Total
Past due up to 30 days	189,983	304,276	111,326	32,339	637,924
Past due 30-60 days	16,743	54,530	27,189	9,133	107,595
Past due 60-90 days	15,862	41,164	16,646	5,736	79,408
Total	**222,588**	**399,970**	**155,161**	**47,208**	**824,927**

31 December 2013	Corporate	SME	Consumer	Credit Card	Total
Past due up to 30 days	390,302	333,674	104,867	13,941	842,784
Past due 30-60 days	70,100	33,832	17,494	1,112	122,538
Past due 60-90 days	46,894	41,660	9,620	809	98,983
Total	**507,296**	**409,166**	**131,981**	**15,862**	**1,064,305**

b. Information on debt securities, treasury bills and other bills:

31 December 2014 Fitch's Rating	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net) (*)	Held to Maturity Securities (Net)	Total
BBB-	1,755	895,945	-	897,700
Unrated	36,165	163	-	36,328
Total	**37,920**	**896,108**	**-**	**934,028**

31 December 2013 Fitch's Rating	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net) (*)	Held to Maturity Securities (Net)	Total
BBB-	4,736	350,620	1,507,142	1,862,498
Unrated	71,540	161	-	71,701
Total	**76,276**	**350,781**	**1,507,142**	**1,934,199**

(*) Available for sale investments consist of bonds and public sector debt securities.

c. Information on rating concentration:

The credit risk is evaluated according to Bank's internal rating system. The loans rated according to probability of default, from the best rating (above standard), to the lowest rate (substandard) are presented in the below table and at the bottom of the table there is past due loans (impaired).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

c. Information on rating concentration (continued):

"Above standard" category means that the debtor has a strong financial structure,"standard" category means that debtor has a good and sufficient financial structure, "substandard" category means that the debtor's financial structure under risk in the short and medium term.

	31 December 2014	31 December 2013
Above standard (A,B)	73.52%	57.04%
Standard (C)	17.64%	34.88%
Substandard (D)	4.54%	3.84%
Impaired (E)	0.35%	0.46%
Not rated	3.95%	3.78%

d. Fair value of collaterals (loans and advances to customers):

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

31 December 2014	Corporate	SME	Consumer	Credit Card	Total
Watch listed loans	23,949	91,559	54,372	9,084	178,964
Loans under legal follow - up	75,063	151,046	6,584	2,082	234,775
Total	**99,012**	**242,605**	**60,956**	**11,166**	**413,739**

31 December 2013	Corporate	SME	Consumer	Credit Card	Total
Watch listed loans	101,101	149,375	36,631	1,795	288,902
Loans under legal follow - up	40,663	190,133	12,072	-	242,868
Total	**141,764**	**339,508**	**48,703**	**1,795**	**531,770**

Type of Collaterals	31 December 2014	31 December 2013
Real-estate mortgage	393,816	472,970
Car pledge	12,464	6,697
Cash and cash equivalents	1,878	3,406
Other	5,581	48,697
Total	**413,739**	**531,770**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

e. Concentration of credit risk based on geographical regions:

	Turkey	EU	Other	Total
Cash and balances with the Central Bank of Turkey	1,358,244	-	-	1,358,244
Loans and advances to banks	82,108	5,237	24,644	111,989
Financial assets at fair value through profit or loss	37,920	-	-	37,920
Derivatives held for risk management	36,277	-	-	36,277
Loans and advances to customers, net	7,744,622	56,082	33,193	7,833,897
- Corporate	3,539,597	56,082	33,193	3,628,872
- SME	3,779,919	-	-	3,779,919
- Consumer	344,038	-	-	344,038
- Credit card	81,068	-	-	81,068
Investment securities	896,108	-	-	896,108
- Available-for-sale	896,108	-	-	896,108
- Held-to-maturity	-	-	-	-
Leasing Receivables	650,605	-	-	650,605
Other intangible assets	73,928	-	-	73,928
Property and equipment	31,601	-	-	31,601
Deferred income tax assets	41,482	-	-	41,482
Other assets	133,365	-	-	133,365
As of 31 December 2014	**11,086,260**	**61,319**	**57,837**	**11,205,416**
As of 31 December 2013	**10,752,380**	**47,010**	**49,265**	**10,848,655**
Letter of guarantees	1,849,620	1,896	3,726	1,855,242
Letter of credits	360,973	1,008	261	362,242
Acceptance credits	43,905	-	-	43,905
Other commitments and contingencies	915,995	24,511	116,214	1,056,720
As of 31 December 2014	3,170,493	27,415	120,201	3,318,109
As of 31 December 2013	**3,324,252**	**10,296**	**601**	**3,335,149**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

f. Sectoral concentration:

	31 December 2014		31 December 2013	
	Cash	Non-cash	Cash	Non-cash
Agricultural	**217,534**	**34,309**	**207,946**	**41,213**
Farming and raising livestock	195,529	33,204	195,730	39,956
Forestry	7,704	677	4,643	811
Fishery	14,301	428	7,573	446
Manufacturing	**2,459,983**	**783,605**	**2,502,409**	**921,690**
Mining	268,758	41,046	168,856	34,312
Production	1,774,763	674,213	2,031,792	796,120
Electric, gas and water	416,462	68,346	301,761	91,258
Construction	**1,140,250**	**553,558**	**990,480**	**546,187**
Services	**3,275,848**	**808,192**	**2,600,554**	**757,122**
Wholesale and retail trade	1,692,708	388,924	1,335,494	345,313
Hotel, food and beverage services	194,367	16,784	160,823	19,463
Transportation and telecommunication	346,967	96,040	313,403	111,318
Financial institutions	388,301	120,170	281,193	113,944
Real estate and renting services	73,242	2,579	35,969	1,979
Self-employment services	534,512	175,736	425,758	156,317
Education services	5,580	506	7,734	659
Health and social services	40,171	7,453	40,180	8,129
Other	**623,302**	**94,501**	**44,342**	**87,119**
Total	**7,716,917**	**2,274,165**	**6,345,731**	**2,353,331**
Non performing loans	446,345	-	281,050	-
Allowance for individually impaired loans	(237,761)	-	(155,234)	-
Allowance for collectively impaired loans	(91,604)	(14,289)	(105,360)	(25,575)
Total	**7,833,897**	**2,259,876**	**6,366,187**	**2,327,756**

g. Carrying amounts per class of financial assets whose terms have been renegotiated:

	31 December 2014	31 December 2013
Loans and advances to customers		
- Corporate lending	78,424	98,534
- Small business lending	-	-
- Consumer lending	-	-
Total	**78,424**	**98,534**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

h. Offsetting financial assets and financial liabilities:

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2014	Derivative financial instruments	36,277	-	36,277	-	(9,909)	26,368
31 December 2013	Derivative financial instruments	150,716	-	150,716	-	(5,369)	145,347

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amount
31 December 2014	Derivative financial instruments	21,007	-	21,007	-	(22,117)	(1,110)
31 December 2013	Derivative financial instruments	105,375	-	105,375	-	(47,761)	57,614

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

B. Market Risk

Market risk is the risk of potential loss arising from the adverse effects of interest rates, exchange rates and equity price volatility inherent in the Bank's trading portfolio. The Bank calculates the regulatory capital requirement for market risk using the standardized method within the framework of Banking Regulatory and Supervision Agency guidelines. In accordance with international best practices, Value at Risk (VaR) is measured daily. VaR, which is a measure of the maximum potential loss on the trading portfolio, is calculated using the historical simulation VaR method, adjusted for EWMA (Exponentially Weighted Moving Average). In order to manage the market risk efficiently and to be consistent with the risk appetite, position limits for asset classes, an overall "Bank Risk Tolerance" and VaR limits for each risk factor are determined. Limit monitoring is done daily by the Risk Management Group. VaR results are supported by regular stress tests and scenario analysis.

The Bank utilizes back testing to verify the predictive power of the value-at-risk calculations. In back testing, theoretical gains/losses calculated by VAR on positions at the close of each business day are compared with the actual gains/losses arising from these positions on the next business day. The assumptions used in the VaR model are reviewed and revised as needed based on the results of the back testing process.

C. Currency Risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below summarizes the Group's exposure to foreign currency exchange rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

C. Currency Risk (continued)

31 December 2014

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Cash and balances with the Central Bank of Turkey	922,006	39,121	231,632	1,192,759	165,485	1,358,244
Loans and advances to banks	28,920	2,515	1,999	33,434	78,555	111,989
Financial assets held for trading						
-Trading securities	5,251	12	-	5,263	68,934	74,197
Loans and advances to customers [1]	2,345,667	717,191	919	3,063,777	4,770,120	7,833,897
Investment securities						
- Available-for-sale	104,371	-	-	104,371	791,737	896,108
- Held- to- maturity	-	-	-	-	-	-
Other intangible assets	-	-	-	-	73,928	73,928
Property and equipment	-	-	-	-	31,601	31,601
Deferred income tax assets	-	-	-	-	41,482	41,482
Other assets[2]	217,906	260,660	-	478,566	305,404	783,970
Total assets	**3,624,121**	**1,019,499**	**234,550**	**4,878,170**	**6,327,246**	**11,205,416**
Liabilities						
Deposits from banks	187,316	29	-	187,345	447,193	634,538
Due to customers	1,245,205	260,811	19,064	1,525,080	3,938,440	5,463,520
Other borrowed funds and subordinated liabilities	1,988,514	820,950	916	2,810,380	55,019	2,865,399
Debt securities issued	586,742	-	-	586,742	281,356	868,098
Derivative financial instruments	-	-	-	-	12,429	12,429
Derivatives held for risk management	-	-	-	-	8,578	8,578
Other provisions	-	-	-	-	17,352	17,352
Retirement benefit obligations	-	-	-	-	4,836	4,836
Other liabilities	64,276	29,579	278	94,133	1,236,533	1,330,666
Total liabilities	**4,072,053**	**1,111,369**	**20,258**	**5,203,680**	**6,001,736**	**11,205,416**
Net balance sheet position	**(447,932)**	**(91,870)**	**214,292**	**(325,510)**	**325,510**	**-**
Off balance sheet derivative instruments net notional position	**463,952**	**90,009**	**(213,968)**	**339,993**	**(101,795)**	**238,198**
Net foreign currency position	**16,020**	**(1,861)**	**324**	**14,483**	**223,715**	**238,198**

31 December 2013						
Total assets	2,400,692	1,318,323	127,659	3,846,674	7,002,655	10,848,655
Total liabilities	2,882,601	1,328,027	20,893	4,231,521	6,617,134	10,848,655
Net balance sheet position	**(481,909)**	**(9,704)**	**106,766**	**(384,847)**	**385,521**	**-**
Off-balance sheet derivative instruments net notional position	480,423	14,222	(86,973)	408,072	-	
Net foreign currency position	**(1,086)**	**(4,518)**	**19,793**	**(23,225)**	**385,521**	**-**

[1] Collective impairment allowance of TL 105,893 (31 December 2013: TL 130,935) is presented as TL balance in the above table).
[2] Other asset balances contain leasing receivables.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

C. Currency Risk (continued)

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2014. The Group's foreign currency risk sensitivity is presented below:

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following tables details the Group's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against the relevant currency.

	31 December 2014		31 December 2013	
	Income statement	**Equity**	**Income statement**	**Equity**
Usd	1,602	1,602	(109)	(109)
Eur	(186)	(186)	452	452
Other	32	32	1,991	1,991
Total, net	**1,448**	**1,448**	**2,334**	**2,334**

	31 December 2014		31 December 2013	
	Income statement	**Equity**	**Income statement**	**Equity**
Usd	(1,602)	(1,602)	109	109
Eur	186	186	(452)	(452)
Other	(32)	(32)	(1,991)	(1,991)
Total, net	**(1,448)**	**(1,448)**	**(2,334)**	**(2,334)**

D. Interest Rate Risk

Even though the Bank is exposed to structural interest rate risk on its statement of financial position due to the nature of its existing activities, it ensures that this risk remains within pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive statement of financial position items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value, as defined in the relevant regulation published by BRSA. Beside the BRSA standard interest rate shock scenario, other internally defined scenarios are also simulated.

Trading and non-trading risks are approved separately in the policy documents and the Market Risk Committee is given discretion in defining the tools and methodology used in measuring, monitoring and managing both trading and non-trading risks.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (continued)

Interest rate sensitivity:

31 December 2014	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/Shareholders' Equity -Losses/ Shareholders' Equity
Currency			
1. TRY	(+) 500bp	(99,626)	(7.58)%
2. TRY	(-) 400bp	96,927	7.39%
3. USD	(+) 200bp	3,600	0.27%
4. USD	(-) 200bp	(2,038)	(0.16)%
5. EUR	(+) 200bp	(3,398)	(0.26)%
6. EUR	(-) 200bp	556	0.04%
Total (for negative shocks)		**95,445**	**7.26%**
Total (for positive shocks)		**(99,424)**	**(7.57)%**

31 December 2013	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/Shareholders' Equity -Losses/ Shareholders' Equity
Currency			
1. TRY	(+) 500bp	(114,322)	(10.10%)
2. TRY	(-) 400bp	115,667	10.22%
3. USD	(+) 200bp	(1,041)	(0.09%)
4. USD	(-) 200bp	1,026	0.09%
5. EUR	(+) 200bp	2,472	0.22%
6. EUR	(-) 200bp	4,079	0.36%
Total (for negative shocks)		**120,772**	**10.67%**
Total (for positive shocks)		**(112,891)**	**(9.97)%**

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

D. Interest Rate Risk (continued)

31 December 2014	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with the Central Bank of Turkey	1,134,326	-	-	-	223,918	1,358,244
Loans and advances to banks	100,910	-	-	-	11,079	111,989
Financial assets held for trading						
- Trading securities	5,692	28,010	3,487	636	95	37,920
- Derivative financial instruments	23,658	2,771	8397	-	1451	36,277
Loans and advances to customers	3,762,610	1,722,187	1,837,668	405,445	105,987	7,833,897
Investment securities						
- Available-for-sale	337,470	534,779	-	23,696	163	896,108
- Held-to-maturity	-	-	-	-	-	-
Other intangible assets	-	-	-	-	73,928	73,928
Property and equipment	-	-	-	-	31,601	31,601
Deferred income tax assets	-	-	-	-	41,482	41,482
Other assets	73,816	176,715	344,539	42,341	146,559	783,970
Total assets	**5,438,482**	**2,464,462**	**2,194,091**	**472,118**	**636,263**	**11,205,416**
Liabilities						
Deposits from bank	633,937	-	-	-	601	634,538
Due to customers	4,961,673	76,828	1,417	-	423,602	5,463,520
Other borrowed funds and subordinated liabilities	736,567	1,686,378	112,628	329,826	-	2,865,399
Debt securities issued	187,397	93959	586,742	-	-	868,098
Derivative financial instruments	7,133	5,296	-	-	-	12,429
Derivatives held for risk management		8,578				8,578
Other provisions	-	-	-	-	17,352	17,352
Retirement benefit obligations	-	-	-	-	4,836	4,836
Other liabilities	7,999	4,806	8,578	-	1,309,283	1,330,666
Total liabilities	**6,534,706**	**1,875,845**	**709,365**	**329,826**	**1,755,674**	**11,205,416**
Net interest repricing gap	**(1,096,224)**	**588,617**	**1,484,726**	**142,292**	**(1,119,411)**	**-**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (continued)

31 December 2013	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with the Central Bank of Turkey	-	-	-	-	1,244,321	1,244,321
Loans and advances to banks	295,661	-	-	-	24,213	319,874
Financial assets held for trading						
- Trading securities	6,984	8,579	41,700	1,092	17,921	76,276
- Derivative financial instruments	78,300	72,416	-	-	-	150,716
Loans and advances to customers	3,548,987	1,398,195	1,108,346	287,371	23,288	6,366,187
Investment securities						
-Available-for-sale	126,657	223,962	-	-	162	350,781
- Held-to-maturity	1,142,111	365,031	-	-	-	1,507,142
Other intangible assets	-	-	-	-	72,550	72,550
Property and equipment	-	-	-	-	32,267	32,267
Deferred income tax assets	-	-	-	-	37,881	37,881
Other assets	73,888	158,836	285,574	-	172,362	690,660
Total assets	**5,272,588**	**2,227,019**	**1,435,620**	**288,463**	**1,624,965**	**10,848,655**
Liabilities						
Deposits from banks	1,906,484	-	-	-	16,058	1,922,542
Due to customers	4,183,356	163,578	11,825	-	389,524	4,748,283
Other borrowed funds and subordinated liabilities	840,678	1,375,016	147,015	315,544	-	2,678,253
Debt securities issued	246,828	-	42,251	-	-	289,079
Derivative financial instruments	52,780	52,595	-	-	-	105,375
Derivatives held for risk management	-	-	-	-	-	-
Other provisions	-	-	-	-	29,130	29,130
Retirement benefit obligations	-	-	-	-	4,891	4,891
Other liabilities	24,172	28,198	52,595	-	966,137	1,071,102
Total liabilities	**7,254,298**	**1,619,387**	**253,686**	**315,544**	**1,405,740**	**10,848,655**
Net interest repricing gap	**(1,981,710)**	**607,632**	**1,181,934**	**(27,081)**	**219,225**	**-**

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2014 and 2013 based on yearly contractual rates.

	31 December 2014			31 December 2013		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets						
Loans and advances to banks	0.15	0.50	11.03	0.21	0.35	7.72
Financial assets held for trading	3.61	5.24	6.55	5.20	3.76	7.43
Investment securities						
- Available-for-sale	4.13	-	8.81	4.39	-	7.65
- Held-to-maturity	-	-	-	-	-	8.34
Loans and advances to customers	4.95	4.54	14.37	5.28	4.96	12.87
Liabilities						
Deposits from banks	1.82	-	-	1.51	0.40	-
Due to customers	2.37	2.04	10.40	2.95	2.99	9.22
Other borrowed funds and subordinated liabilities	2.87	2.59	6.97	3.21	2.85	5.54
Debt securities issued	3.13	-	9.48	-	-	14.07

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk

Liquidity risk refers to the possibility of an institution being unable to access necessary funds due to declining fund-raising capacity; The Group closely monitors its overall liquidity level and operates under strict limits based on stress conditions. To address liquidity risk, the Group has adopted a unified approach to TL and foreign currency fund-raising opportunities. The key limit puts a ceiling on the share of overnight borrowing in the current funding pool and acts as a warning signal for the senior management to adjust the composition and/or the pricing of the borrowing instruments.

The Group uses domestic and foreign markets for its liquidity needs, Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (Central Bank of the Republic of Turkey ("CBRT"), ISE, Interbank money market, ISE Settlement and Custody Bank and other markets). The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. In accordance with the "Communiqué on the Measurement and Assessment of Liquidity of the Banks", liquidity ratio of the banks on a weekly and monthly basis should not be less than 80% for foreign currency denominated assets and liabilities, and for total assets and liabilities it should not be less than 100%. Liquidity ratios as at 31 December 2014 and 31 December 2013 are represented below;

31 December 2014	Primary Maturity Segment		Secondary Maturity Segment		Stock Values
	FX	FX + TL	FX	FX + TL	FX + LT
Average (%)	291.35	167.89	182.94	124.12	17.65
Highest (%)	547.9	285.13	274.58	161.49	20.82
Lowest (%)	120.87	121.76	112.96	107.03	15.16

31 December 2013	Primary Maturity Segment		Secondary Maturity Segment		Stock Values
	FX	FX + TL	FX	FX + TL	FX + LT
Average (%)	138.29	142.13	121.05	118.44	16.37
Highest (%)	251.82	212.46	159.39	127.44	13.27
Lowest (%)	105.17	122.50	96.25	107.91	19.97

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (continued)

The following tables analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

31 December 2014	On demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undistributed	Total
Assets						
Cash and balances with the Central Bank of Turkey	1,358,244	-	-	-	-	1,358,244
Loans and advances to banks	111,989	-	-	-	-	111,989
Financial assets held for trading						
- Trading securities	7,238	26,559	3,065	1,058	-	37,920
- Derivative financial instruments	32,119	2,706	-	1	1,451	36,277
Loans and advances to customers	2,017,959	3,466,115	1,838,391	405,445	105,987	7,833,897
Investment securities						
- Available-for-sale	103	401,160	66,188	428,494	163	896,108
- Held-to-maturity	-	-	-	-	-	-
Other intangible assets	-	-	-	-	73,928	73,928
Property and equipment	-	-	-	-	31,601	31,601
Deferred income tax assets	-	-	-	-	41,482	41,482
Other assets	87,814	176,715	344,539	42,341	132,561	783,970
Total assets	**3,615,466**	**4,073,255**	**2,252,183**	**877,339**	**387,173**	**11,205,416**
Liabilities						
Deposits from banks	634,538	-	-	-	-	634,538
Due to customers	5,385,275	76,828	1,417	-	-	5,463,520
Other borrowed funds and subordinated liabilities	390,851	1,694,705	450,018	329,825	-	2,865,399
Debt securities issued	187,396	93,959	586,743	-	-	868,098
Derivative financial instruments	7,133	5,296	-	-	-	12,429
Derivatives held for risk management		8,578				8,578
Other provisions	-	-	-	-	17,352	17,352
Retirement benefit obligations	-	-	-	-	4,836	4,836
Other liabilities	181,440	4,806	-	-	1,144,420	1,330,666
Total liabilities and equity	**6,786,633**	**1,884,172**	**1,038,178**	**329,825**	**1,166,608**	**11,205,416**
Net liquidity gap	**(3,171,167)**	**2,189,083**	**1,214,005**	**547,514**	**(779,435)**	**-**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (continued)

31 December 2013	On demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undistributed	Total
Assets						
Cash and balances with the Central Bank of Turkey	1,244,321	-	-	-	-	1,244,321
Loans and advances to banks	319,874	-	-	-	-	319,874
Financial assets held for trading						
- Trading securities	37,646	7,193	29,553	1,884	-	76,276
- Derivative financial instruments	71,009	72,694	7,013	-	-	150,716
Loans and advances to customers	1,891,110	3,027,329	1,137,089	287,371	23,288	6,366,187
Investment securities						
- Available-for-sale	5,171	-	241,276	104,172	162	350,781
- Held-to-maturity	264,771	-	891,481	350,890	-	1,507,142
Other intangible assets	-	-	-	-	72,550	72,550
Property and equipment	-	-	-	-	32,267	32,267
Deferred income tax assets	-	-	-	-	37,881	37,881
Other assets	181,678	158,885	286,683	-	63,414	690,660
Total assets	**4,015,580**	**3,266,101**	**2,593,095**	**744,317**	**229,562**	**10,848,655**
Liabilities						
Deposits from banks	1,922,542	-	-	-	-	1,922,542
Due to customers	4,572,880	163,578	11,825	-	-	4,748,283
Other borrowed funds and subordinated liabilities	513,666	1,505,120	343,923	315,544	-	2,678,253
Debt securities issued	196,581	50,247	42,251	-	-	289,079
Derivative financial instruments	52,780	52,595	-	-	-	105,375
Derivatives held for risk management	-	-	-	-	-	-
Other provisions	-	-	-	-	29,128	29,128
Retirement benefit obligations	-	-	-	-	4,893	4,893
Other liabilities	130,373	-	1,471	-	939,258	1,071,102
Total liabilities and equity	**7,388,822**	**1,771,540**	**399,470**	**315,544**	**973,279**	**10,848,655**
Net liquidity gap	**(3,373,242)**	**1,494,561**	**2,193,625**	**428,775**	**(743,719)**	**-**

The following table presents the cash flows payable by the Group under non-derivative financial liabilities remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

31 December 2014	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	364,060	270,432	-	-	634,492
Due to customers	5,253,178	230,612	31,484	-	5,515,274
Other borrowed funds	204,516	1,879,686	477,849	397,022	2,959,073
Debt securities issued	-	298,959	581,725	-	880,684
Total liabilities	**5,821,754**	**2,679,689**	**1,091,058**	**397,022**	**9,989,523**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (continued)

31 December 2013	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	1,916,972	-	-	-	1,916,972
Due to customers	4,606,205	173,518	28,191	-	4,807,914
Other borrowed funds	446,983	1,502,226	395,397	433,042	2,777,648
Debt securities issued	-	254,219	50,000	-	304,219
Total liabilities	**6,970,160**	**1,929,963**	**473,588**	**433,042**	**9,806,753**

F. Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational Risk is managed based on a framework for identifying, measuring, monitoring and managing all risks within the scope of the definition of operational risk. The Bank's risk management and internal controls allow it to control and minimize operational risks effectively under a detailed set of written procedures. These procedures are readily accessible and continuously updated and include procedures to handle all contingency events.

Studies of activity-based operational risks are continuing through the Risk Control Self Assessment. These are categorized according to cause, event and effect categories as proposed by Basel II, and action has been taken for severe risks.

The Business Continuity Management Plan, prepared in order to minimize losses due to business disruption, has been implemented. Comprehensive annual testing of the Disaster Recovery Center (DRC) is conducted with the participation of business units and IT.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No, 28337 dated 28 June 2012, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2013, 2012 and 2011, as of 31 December 2014, the total amount subject to operational risk is calculated as TL 780,525 (31 December 2013: TL 608,607) and the amount of the related capital requirement is TL 62,442 (31 December 2013: TL 48,689).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

G. Capital management

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

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

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

The Group's regulatory capital position on a consolidated basis is as follows:

	31 December 2014	31 December 2013
Tier I capital	884,726	559,761
Tier II capital	391,999	534,192
Deductions	3,126	2,716
Total regulatory capital	**1,273,599**	**1,091,237**
Amount subject to credit risk	8,398,175	7,399,175
Amount subject to market risk	30,288	219,063
Amount subject to operational risk	780,525	608,607
Capital adequacy ratio (%)	**13.83**	**13.26**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement 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 realise in a current market exchange.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

	31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and advances to banks	111,989	111,989	319,874	304,178
Investment securities (held-to-maturity)	-	-	1,507,142	1,482,057
Loans and advances to customers	7,749,968	8,376,500	6,366,187	6,443,749
Financial liabilities:				
Deposits from banks	634,538	634,538	1,922,542	1,922,542
Due to customers	5,463,520	5,438,266	4,748,283	4,675,685
Other borrowed funds and subordinated liabilities	2,865,399	3,047,552	2,678,253	2,665,075
Debt securities issued	868,098	910,614	289,079	289,079

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

Loans and advances to banks

The fair value of overnight loans and advances to banks are considered to approximate its carrying amounts. The estimated fair value of long term interest bearing loans and advances to banks are based on discounted cash flows using prevailing money market interest rates at the reporting date with similar credit risk and remaining maturity.

Loans and advances to customers

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost (continued)

Investment securities

Fair value for held-to-maturity securities is based on market prices or prices prevailing at the reporting date announced by the ISE.

Due to customers, deposits from banks, other borrowed funds

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of other borrowings and debt securities issued without quoted market price is of estimated future cash flows expected to be paid using money market interest rates prevailing at the reporting date with similar credit risk, currency and remaining maturity.

The estimated fair value of interest bearing liabilities due to customers is based on discounted cash flows of estimated future cash flows expected to be paid.

Fair value estimation

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

- 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) (Level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

Level 2 trading derivatives comprise forward foreign exchange contracts, interest rate swaps and currency options. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Currency options are fair valued using by using Black & Scholes method and also active market values depending on the option type.

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes. This team reports to chief financial officer (CFO).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost (continued)

The following tables present the Group's assets and liabilities that are measured at fair value at 31 December 2014 and 2013.

31 December 2014	Level 1	Level 2(*)	Level 3	Total
Financial assets held for trading				
- Debt securities	37,824	-	-	37,824
- Derivatives	-	36,277	-	36,277
- Equity securities	96	-	-	96
Available-for-sale financial assets	-	-	-	-
- Investments securities - debt	896,108	-	-	896,108
Hedged Loans	-	156,614	-	156,614
Total assets	**934,028**	**192,891**	-	**1,126,919**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	12,429	-	12,429
Hedging Derivatives		8,578		8,578
Total liabilities	-	**21,007**	-	**21,007**

(*)Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, discount rates and foreign currency exchange rates.

31 December 2013	Level 1	Level 2(*)	Level 3	Total
Financial assets held for trading				
- Debt securities	58,235	-	-	58,235
- Derivatives	-	150,716	-	150,716
- Equity securities	18,041	-	-	18,041
Available-for-sale financial assets				
- Investments securities - debt	350,781	-	-	350,781
Total assets	**427,057**	**150,716**	-	**577,773**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	105,375	-	105,375
Total liabilities	-	**105,375**	-	**105,375**

(*)Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, discount rates and foreign currency exchange rates.

I. Fiduciary activities

The Group provides custody services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Fiduciary capacity of the Group is as follows:

	31 December 2014	31 December 2013
Investment securities held in custody	740,146	709,254
Cheques received for collection	236,241	247,410
Customer investment security portfolio	135,917	127,129
Commercial notes received for collection	37,987	24,143
Total	**1,150,291**	**1,107,936**

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

NOTE 5 - CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	31 December 2014	31 December 2013
Cash and cash equivalents	97,541	87,661
Demand deposits with the Central Bank of Turkey	249,751	405,700
Loans and advances to banks (with original maturity less than three months)	111,989	119,873
	459,281	**613,234**

NOTE 6 - CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY

	31 December 2014	31 December 2013
Cash and cash equivalents		
Cash in hand - foreign currency	58,552	56,637
Cash in hand - TL	38,989	31,024
Other- TL	-	-
	97,541	**87,661**
Demand deposits at central banks		
Foreign currency	123,395	101,402
TL	126,496	304,298
	249,891	**405,700**
Reserve deposits at central banks		
Foreign currency	1,010,812	750,960
	1,010,812	**750,960**
Total	**1,358,244**	**1,244,321**

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to the Central Bank of the Republic of Turkey's Communiqué numbered 2005/1 "Required Reserves". The Bank's total domestic liabilities excluding the items stated in the Communiqué as deductibles, the deposits accepted on behalf of foreign branches from Turkey and loans obtained by the banks but followed under foreign branches constitute the required reserves liabilities.

The reserve rates for TL liabilities vary between 5% and 11.5% for TL deposits and other liabilities according to their maturities as of 31 December 2014 (31 December 2013: 5% and 11.5% for all TL liabilities). The reserve rates for foreign currency deposits vary between 9% and 13% (31 December 2013: 9% and 13% for all foreign deposit) and for other foreign currency liabilities between 6% and 13% as of 31 December 2014 (31 December 2013: 6% and 13% for all foreign currency liabilities).

CBRT started to pay interest for the Turkish Lira reserve since 5 November 2014

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

NOTE 7 - LOANS AND ADVANCES TO BANKS

	31 December 2014			31 December 2013		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
TL:						
Nostro/demand deposits	11,079	-	11,079	565	-	565
Time deposits	94,136	-	94,136	21,863	-	21,863
Interbank money market	6,774	-	6,774	217,046	-	217,046
	111,989	**-**	**111,989**	**239,474**	**-**	**239,474**
Foreign currency:						
Nostro/demand deposits	3,315	30,011	33,326	172	23,367	23,539
Time deposits	7,729	-	7,729	31,296	25,565	56,861
	11,044	**30,011**	**41,055**	**31,468**	**48,932**	**80,400**
Total	**81,978**	**30,011**	**111,989**	**270,942**	**48,932**	**319,874**

NOTE 8 - FINANCIAL ASSETS HELD FOR TRADING

	31 December 2014	**31 December 2013**
Government bonds and treasury bills	37,686	56,727
Government bonds and treasury bills sold under repurchase agreements	138	1,508
Other debt securities	-	-
Total debt securities	**37,824**	**58,235**
Equity securities - listed	96	18,041
Total equity securities	**96**	**18,041**
Derivative financial instruments	36,277	150,716
Total financial assets held for trading	**74,197**	**226,992**

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent corporate bonds issued by companies incorporated in Turkey.

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

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

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients' needs.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

31 December 2014	**Contract/ notional amount**	**Fair values**	
		Assets	**Liabilities**
Derivatives held for trading			
Currency forwards	522,604	4,839	(5,760)
Currency swaps	2,980,019	27,963	(4,847)
OTC currency options	557,332	3,475	(1,822)
Total	**4,059,955**	**36,277**	**(12,429)**

31 December 2013	**Contract/ notional amount**	**Fair values**	
		Assets	**Liabilities**
Derivatives held for trading			
Currency forwards	3,852,616	44,970	(18,653)
Currency swaps	2,824,470	27,976	(23,739)
OTC currency options	7,365,611	77,492	(62,983)
Interest rate swaps	100,000	278	-
Total	**14,142,697**	**150,716**	**(105,375)**

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2014	**Contract/ notional amount**	**Fair values**	
		Assets	**Liabilities**
Derivatives held for risk management			
Interest rate swaps(*)	220,000	-	(8,578)
Total	**220,000**	**-**	**(8,578)**

(*)Starting from 24 March 2014, the Bank has hedged the possible fair value effects of changes in libor interest rates on instalment commercial loans with fixed payments and fixed interest rates amounting TL 82,968 thousand with a maturity 3 years and TL 88,809 thousand with a maturity 5 years funding by using interest rate swaps. The Bank has started to hedge the interest rate risk of such loans with two swaps transactions with a nominal value of TL 55,000 and 3 years maturity and with a nominal value of TL 55,000 and 5 years maturity on 24 March 2014 under fair value hedge accounting.

The impact of fair value hedge accounting application is summarized below:

31 December 2014 **Hedging Instrument**	**Asset liability hedging**	**Risk Hedge**	**Fair value gain of hedged asset**	**Net fair value of hedging account**	
				Asset	**Liability**
Interest swap contract	Fixed interest, fixed payment commercial loans	Fixed interest rate risk	9,406	-	8,578

The bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in "Trading gains and losses on derivative financial instruments" account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the "Trading gains and losses on derivative financial instruments" account.

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

31 December 2014	Corporate	SME	Consumer	Credit Card	Leasing Receivables	Total
Performing loans	3,319,484	3,684,223	325,134	256,263	615,271	8,200,375
Loans under close monitoring	32,605	95,696	43,835	14,869	13,194	200,199
Loans under legal follow-up	152,736	218,565	9,249	10,603	55,192	446,345
Gross	**3,504,825**	**3,998,484**	**378,218**	**281,735**	**683,657**	**8,846,919**
Specific allowance for impairment	74,831	146,734	7,301	8,895	33,052	270,813
Collective allowance for impairment	41,953	42,940	5,292	1,419	-	91,604
Total allowance for impairment	**116,784**	**189,674**	**12,593**	**10,314**	**33,052**	**362,417**
Net	**3,388,041**	**3,808,810**	**365,625**	**271,421**	**650,605**	**8,484,502**

31 December 2013	Corporate	SME	Consumer	Credit Card	Leasing Receivables	Total
Performing loans	3,349,420	2,409,476	318,171	74,603	509,170	6,660,840
Loans under close monitoring	116,996	75,491	27,114	1,921	13,126	234,648
Loans under legal follow-up	89,990	131,749	2,715	1,208	55,389	281,051
Gross	**3,556,406**	**2,616,716**	**348,000**	**77,732**	577,685	**7,176,539**
Specific allowance for impairment	82,319	69,080	3,835	-	27,462	182,696
Collective allowance for impairment	55,017	44,308	3,903	2,132	-	105,360
Total allowance for impairment	**137,336**	**113,388**	**7,738**	**2,132**	**27,462**	**288,056**
Net	**3,419,070**	**2,503,328**	**340,262**	**75,600**	**550,223**	**6,888,483**

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	31 December 2014			
	Corporate	**SME**	**Consumer**	**Total**
At 1 January 2014	**137,336**	**113,388**	**9,870**	**260,594**
Provision for loan impairment	-	77,653	13,805	91,458
Amounts recovered during the year (-)	(20,552)	(1,367)	(768)	(22,687)
At 31 December 2014	**116,784**	**189,674**	**22,907**	**329,365**

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

	31 December 2013			
	Corporate	**SME**	**Consumer**	**Total**
At 1 January 2013	**113,798**	**73,834**	**18,521**	**206,153**
Provision for loan impairment	62,272	107,307	3,984	173,563
Amounts recovered during the year (-)	(15,640)	(2,569)	(11,907)	(30,116)
Loans written off during the year as uncollectible (-)(1)	(23,094)	(65,184)	(728)	(89,006)
At 31 December 2013	**137,336**	**113,388**	**9,870**	**260,594**

(1) A part of impaired loans amounting to TL 91,739 have been sold to Girişim Varlık Yönetim A.Ş for a total consideration of TL 19,200 on 25 June 2013 and provision amounting to TL 83,030 have been written off.

NOTE 11 - INVESTMENT SECURITIES

(i) Held for trading

Held for trading securities whose total carrying amount is TL 138 as at 31 December 2014 (31 December 2013: TL 1,508) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

(ii) Securities available-for-sale

	31 December 2014	31 December 2013
Debt securities - at fair value:		
Government bonds and treasury bills	528,965	80,781
Government bonds and treasury bills sold under repurchase agreements	367,143	270,000
Total securities available-for-sale	**896,108**	**350,781**

Available-for-sale whose total carrying amount is TL 367,143 as at 31 December 2014 (31 December 2013: TL 270,000) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

Available-for-sale securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 25,203 (31 December 2013: TL 74,284).

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey at 31 December 2014.

There are no impairments recognised for available-for-sale securities.

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

NOTE 11 - INVESTMENT SECURITIES (Continued)

(iii) Securities held-to-maturity

	31 December 2014	31 December 2013
Debt securities - at amortised cost - listed:		
Government bonds and treasury bills	-	29,272
Government bonds and treasury bills sold under repurchase agreements	-	1,477,870
Total securities held-to-maturity[1]	**-**	**1,507,142**

[1]In 2014, the Bank has sold a significant portion of its securities, classified in held to maturity portfolio in 2013 amounting TL 1.727.927 before the maturity dates of such securities. Therefore the Bank will not classify its investment in held to maturity portfolio for two years beginning from 1 January 2015.

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey.

As of 31 December 2014 there is no held-to-maturity through the ISE investments given as collateral (31 December 2013: TL 21,186) and held-to-maturity investments subject to repo transactions amount (31 December 2013: TL 1,477,870).

The movement in held-to-maturity securities at 31 December is as follows:

	31 December 2014	31 December 2013
At 1 January	**1,507,142**	**1,045,707**
Additions	220,830	733,573
Disposals / redemption [1]	(1,727,972)	(265,023)
Change in amortised cost	-	(7,115)
At 31 December	**-**	**1,507,142**

[1]In 2014, the Bank has sold a significant portion of its securities, classified in held to maturity portfolio in 2013 amounting TL 1,727,927 before the maturity dates of such securities. Therefore the Bank will not classify its investment in held to maturity portfolio for two years beginning from 1 January 2015.

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

NOTE 12 - OTHER INTANGIBLE ASSETS AND GOODWILL

	31 December 2014	31 December 2013
Cost	116,696	112,125
Accumulated amortisation	(42,768)	(39,575)
Net book amount	**73,928**	**72,550**

Movements of other intangible assets were as follows:

31 December 2014

	Goodwill (*)	Rights and Licenses	Software	Other	Total
Cost					
At 1 January	47,260	57,939	5,169	1,757	112,125
Additions	-	3,427	1,144	-	4,571
Disposals	-	-	-	-	-
At 31 December	**47,260**	**62,020**	**5,569**	**1,757**	**116,696**
Accumulated amortisation					
At 1 January	-	(34,881)	(4,694)	-	(39,575)
Amortisation charge (Note 28)	-	(2,832)	(361)	-	(3,193)
Disposals	-	-	-	-	-
At 31 December	**-**	**(37,983)**	**(4,785)**	**-**	**(42,768)**
Net book amount at 31 December	**47,260**	**24,037**	**874**	**1,757**	**73,928**

(*) In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency's authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased on 8 November 2013, 19 November 2013 and 18 December 2013, 2,727,259,500 shares amounting TL 115,585 to 95.8% of total shares from Endüstri Holding A.Ş, and 115,488,748 shares from other shareholders. The Bank has recognised TL 47,260 goodwill and TL 1,757 intangible assets on this transaction.

31 December 2013

	Goodwill	Rights and Licenses	Software	Other	Total
Cost					
At 1 January	**-**	**51,071**	**4,993**	**-**	**56,064**
Additions	47,260	6,868	176	1,757	56,061
Disposals	-	-	-	-	-
At 31 December	**47,260**	**57,939**	**5,169**	**1,757**	**112,125**
Accumulated amortisation					
At 1 January	-	(31,754)	(4,569)	-	(36,323)
Amortisation charge (Note 28)	-	(3,127)	(125)	-	(3,252)
Disposals	-	-	-	-	-
At 31 December	**-**	**(34,881)**	**(4,694)**	**-**	**(39,575)**
Net book amount at 31 December	**47,260**	**23,058**	**475**	**1,757**	**72,550**

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

NOTE 12 - OTHER INTANGIBLE ASSETS AND GOODWILL (Continued)

In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş (AEH) and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency's authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased 2,727,259,500 shares which is 95.8% of Alternatif Finansal Kiralama ("A Lease"), the associate of AEH, with a consideration amount of TL 115,585 and 115,488,748 shares from other shareholders with a consideration amount of TL 4,894. The Bank has recognised TL 47,260 goodwill and TL 1,757 intangible assets on this transaction.

The valuation of the fair value of the equity of A Lease is made by the Bank. Discounted cash flow method was used for determining fair value by using 3 year business plan prepared by management of the company. Growing the business plan of the A Lease stems from the company's opportunities in the sector in which it operates and new customer acquisitions. The important assumptions about the calculating recoverable amount is discount rates and terminal growth rates. The discount rate used in the calculation is 15.5% and terminal growth rate is 13.6%.

NOTE 13 - PROPERTY AND EQUIPMENT

	31 December 2014	31 December 2013
Cost	107,654	99,856
Accumulated depreciation and impairment	(76,053)	(67,589)
Net book amount	**31,601**	**32,267**

31 December 2014	**Furniture and Office Equipment**	**Leasehold Improvements**	**Motor Vehicles**	**Leasing**	**Total**
Cost					
At 1 January	**51,509**	**39,075**	**96**	**9,176**	**99,856**
Additions	616	3,619	4,362	-	8,597
Disposals	(383)	(40)	(376)	-	(799)
At 31 December	**51,742**	**42,654**	**4,082**	**9,176**	**107,654**
Accumulated depreciation and impairment					
At 1 January	**(34,895)**	**(25,054)**	**(92)**	**(7,548)**	**(67,589)**
Depreciation charge (Note 28)	(8)	(4,499)	(4,291)	(2)	(8,800)
Disposals	-	3	333	-	336
At 31 December	**(34,903)**	**(29,550)**	**(4,050)**	**(7,550)**	**(76,053)**
Net book amount at 31 December	**16,839**	**13,104**	**32**	**1,626**	**31,601**

31 December 2013	**Furniture and Office Equipment**	**Leasehold Improvements**	**Motor Vehicles**	**Leasing**	**Total**
Cost					
At 1 January	**43,786**	**32,984**	**96**	**7,975**	**84,841**
Additions	7,723	6,534	-	1,201	15,458
Disposals	-	(443)	-	-	(443)
At 31 December	**51,509**	**39,075**	**96**	**9,176**	**99,856**
Accumulated depreciation and impairment					
At 1 January	**(33,221)**	**(22,819)**	**(88)**	**(7,548)**	**(63,676)**
Depreciation charge (Note 28)	(1,674)	(2,235)	(4)	-	(3,913)
Disposals	-	-	-	-	-
At 31 December	**(34,895)**	**(25,054)**	**(92)**	**(7,548)**	**(67,589)**
Net book amount at 31 December	**16,614**	**14,021**	**4**	**1,628**	**32,267**

As at 31 December 2014, there is no provision for impairment on property and equipment (31 December 2013: None).

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

NOTE 14 - OTHER ASSETS

	31 December 2014	31 December 2013
Repossessed property	69,967	80,881
Collaterals given for derivative transactions	22,117	47,761
Prepaid expenses	28,366	13,191
Collaterals given for securities	-	6,788
Others	12,915	19,743
Total	**133,365**	**168,364**

Assets held for resale represents mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law.

NOTE 15 - DEPOSITS FROM BANKS

	31 December 2014			31 December 2013		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Foreign banks	29	189,078	189,107	389	178,194	178,583
Domestic banks	-	-	-	6,924	38,931	45,855
Funds deposited under repurchase agreements	-	82,101	82,101	-	18,046	18,046
	29	**271,179**	**271,208**	**7,313**	**235,171**	**242,484**
TL:						
Domestic banks	275	-	275	8,668	-	8,668
Foreign Banks	296	-	296	77	-	77
Funds deposited under repurchase agreements	-	362,759	362,759	-	1,671,313	1,671,313
	571	**362,759**	**363,330**	**8,745**	**1,671,313**	**1,680,058**
Total	**600**	**633,938**	**634,538**	**16,058**	**1,906,484**	**1,922,542**

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

NOTE 16 - DUE TO CUSTOMERS

	31 December 2014			31 December 2013		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	59,496	485,019	544,515	41,784	593,834	635,618
Commercial deposits	175,244	803,558	978,802	130,481	604,671	735,152
	234,740	**1,288,577**	**1,523,317**	**172,265**	**1,198,505**	**1,370,770**
TL deposits:						
Saving deposits	55,058	2,006,806	2,061,864	50,660	1,646,556	1,697,216
Commercial deposits	118,923	1,740,396	1,859,319	166,599	1,512,857	1,679,456
Funds deposited under repurchase agreements	-	-	-	-	841	841
Public sector deposits	14,880	4,140	19,020	-	-	-
	188,861	**3,751,342**	**3,940,203**	**217,259**	**3,160,254**	**3,377,513**
Total	**423,601**	**5,039,919**	**5,463,520**	**389,524**	**4,358,759**	**4,748,283**

NOTE 17 - OTHER BORROWED FUNDS AND SUBORDINATED LIABILITIES

	31 December 2014	31 December 2013
Foreign institutions and banks		
Syndication loans	763,367	748,203
Subordinated liabilities	329,826	312,339
Other	1,062,082	1,431,141
Total foreign	**2,155,275**	**2,491,683**
Domestic banks	710,124	186,570
Total domestic	**710,124**	**186,570**
Total	**2,865,399**	**2,678,253**

As of 31 December 2014, funds borrowed from foreign institutions include a syndicated credit facility, in the amount of EUR 114.5 million and USD 189.5 million dual-tranche multi-currency term loan facility, with an all in cost of annual Libor+1.35% and Euribor+1.35% provided by 20 international banks with HSBC Bank Plc. acting as agent, and matures on 19 June 2015.

The details of subordinated loans of the Bank as of 31 December 2014 are presented in the table below:

Lender	Principal Amount	Opening Date	Maturity	Interest rate (%)
International Finance Corporation	USD 50,000	29 December 2010	10 year	Libor + 4,50
Black Sea Trade and Development Bank	USD 30,000	29 December 2010	10 year	Libor + 4,50
FMO Amsterdam	USD 25,000	29 December 2010	10 year	Libor + 4,50
DEG KOLN	EUR 20,000	29 December 2011	10 year	Libor + 4,50
EFSE SA.SICAV-SIF	EUR 10,000	29 December 2011	10 year	Libor + 4,50

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

NOTE 18 – DEBT SECURITIES ISSUED

	31 December 2014	31 December 2013
Debt securities at amortised cost-fixed interest rate	825,895	238,832
Debt securities at amortised cost-variable interest rate	42,203	50,247
Total	**868,098**	**289,079**

Debt securities have a maturity varied from January 2015 from to July 2019 with between 2.42% and 9.11% fixed and variable interest rates.

The Bank issued 250 million bond with five year maturity and coupon rate of 3.125%, all to be sold to investors in overseas markets on 21 July 2014.

NOTE 19 – TAXATION

	31 December 2014	31 December 2013
Current tax expense	(32,163)	(1,297)
Deferred tax income/(expense)	1,873	(11,626)
	(30,290)	**(12,923)**

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return, Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis,

Under the Corporate Tax Law numbered 5520, the applicable corporate tax rate is 20% for 31 December 2014 (31 December 2013: 20%). Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in single instalment until the end of the month in which the tax return is to be filed.

Dividends paid to non-resident corporations, which have a fixed place of business or permanent representative in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax, Provisions of bilateral treaties are reserved.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their quarterly determined corporate income. Advance tax return is filed by the 14th of the second month following the each quarterly period and is payable on the 17th of the same month, Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to offset against other liabilities to the government.

Reconciliation of income tax expense:

	31 December 2014	31 December 2013
Profit before tax after monetary gain / (loss)	**169,242**	**66,071**
At Turkish statutory income tax rate of 20%	33,848	13,214
Disallowed expenses	25,615	13,366
Other non-taxable items	(21,900)	(35,422)
Other	(7,273)	(4,081)
Income tax expense	**(30,290)**	**(12,923)**

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

NOTE 19 - TAXATION (Continued)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments, Tax authorities have the right to audit tax declarations and accounting records for 5 years, and may issue re-assessment based on their findings for tax purposes.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years, Tax losses cannot be carried back to offset profits from previous periods.

75% of the capital gains of corporations' from sale of participation shares and property which have been in their assets at least for two years is exempt from corporate tax provided that this amount is kept in a special reserve account in the liabilities side of the statement of financial position for 5 years.

Deferred income taxes

For all subsidiaries and the Bank , deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2014 under the liability method using a principal tax rate of 20% at 31 December 2014 (31 December 2013: 20%).

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	2014	2013	2014	2013
Loan loss impairment provision	91,065	107,208	18,213	21,442
Unused investment allowances without stoppage	80,070	79,109	16,014	15,822
Unused investment allowances with stoppage	23,904	21,709	48	43
Employee termination benefits and vacation pay liability	9,626	9,314	1,925	1,863
Valuation differences on investment securities	3,794	(57,544)	759	(11,509)
Court case provision	3,063	3,177	613	635
Carry forward losses	2,572	12,767	514	2,553
Bonus provision	200	11,600	40	2,320
Other	45,280	44,010	9,056	8,802
Deferred income tax assets	**259,574**	**231,350**	**47,182**	**41,971**
Difference between carrying value and tax base of property and equipment	(6,758)	(5,135)	(1,352)	(1,027)
Revaluation of derivative instruments at fair value	(21,739)	(15,315)	(4,348)	(3,063)
Deferred income tax liabilities	**(28,497)**	**(20,450)**	**(5,700)**	**(4,090)**
Deferred income tax assets, net	**207,414**	**189,406**	**41,482**	**37,881**

The movements of deferred income taxes at 31 December were as follows:

	31 December 2014	31 December 2013
1 January	**37,881**	**26,665**
Charge for the year	3,601	11,216
- *Profit and loss*	*1,873*	*11,216*
- *Other comprehensive income*	*1,728*	-
31 December	**41,482**	**37,881**

At 31 December 2014, there are no deductible temporary differences for which no deferred tax asset is recognised in the statement of financial position (31 December 2013: None).

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

NOTE 20 - OTHER PROVISIONS

	31 December 2014	31 December 2013
Provision for losses on credit related commitments	14,289	25,575
Other legal provision	3,063	3,177
Other	-	378
Total	**17,352**	**29,130**

Other legal provisions

At 31 December 2014 the Group is involved in number of legal disputes, The Group's lawyers advise that, owing to developments in some of these cases; it is probable that the Group will be found liable. Therefore, the management has recognised a provision of TL 3,063 (31 December 2013: TL 3,177) as the best estimate of the amount to settle these potential obligations.

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

	31 December 2014	31 December 2013
Reserve for employment termination benefits	4,836	4,891
	4,836	**4,891**

Under the Turkish Labour Law, the Parent Bank and its subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires. There are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of full TL 3,438.22 (1 July 2013: full TL 3,254.44) for each year of service.

Movement of employment termination benefits:

	31 December 2014	31 December 2013
Prior period ending balance	**4,891**	**4,878**
Changes during the period	2,956	1,382
Paid during the period (-)	3,011	1,369
Balance at the end of the period	**4,836**	**4,891**

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

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

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

	31 December 2014	31 December 2013
Discount rate (%)	3.77	3.49
The probability of retirement (%)	85.8	87.66

NOTE 22 - OTHER LIABILITIES

	31 December 2014	31 December 2013
Blocked accounts	182,476	331,472
Cheques in collection	122,901	97,953
Taxes other than income and withholdings	21,742	16,409
Bonus accrual for personnel	12,200	12,646
Collaterals received for securities	9,959	6,788
Provision for unused vacation	3,753	4,654
Other	10,407	2,354
Total	**363,438**	**472,276**

NOTE 23 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Company consists of 620 million (31 December 2013: 420 million) authorised shares with a nominal value of TL 1 each. The Company's authorised capital amounts to TL 620,000 (31 December 2013: TL 420,000).

The Bank has increased the share capital from TL 420,000 to TL 620,000 by TL 200,000 in cash and the process has been completed as of 6 March 2014.

	31 December 2014		31 December 2013	
Shareholders	**Participation rate (%)**	**TL thousand**	**Participation rate (%)**	**TL thousand**
Commercial Bank of Qatar	74.25%	460,341	74.24%	311,815
Anadolu Endüstri Holding A.Ş.	17.21%	106,683	17.21%	72,269
Other	8.54%	52,976	8.55%	35,916
Historical share capital	**100%**	**620,000**	**100%**	**420,000**
Share premium		119		98
Total share capital and share premium		**620,119**		**420,098**

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

NOTE 24 - RETAINED EARNINGS AND OTHER RESERVES

	31 December 2014	31 December 2013
Legal Reserves	20,052	15,165
Fair value reserve	(6,154)	(40,824)
Own shares acquired	(3,296)	-
Total other reserves	**10,602**	**(25,659)**
Retained earnings	**327,292**	**193,634**

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

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

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

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

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

NOTE 25 - NET INTEREST INCOME

	31 December 2014	31 December 2013
Interest income on:		
Loans and advances:		
- to banks	-	-
- to customers	876,212	609,238
Trading securities	11,028	21,796
Investment securities	163,000	155,621
Money market transactions	3,236	2,703
Other	48,662	7,831
Total interest income	**1,102,138**	**797,189**
Interest expense on:		
Due to customers	399,660	238,580
Repurchase agreements	78,497	53,052
Debt securities issued	117,878	70,991
Deposits from banks	26,886	21,017
Other	4,831	1,104
Total interest expense	**627,752**	**384,744**
Net interest income	**474,386**	**412,445**

NOTE 26 - NET FEE AND COMMISSION INCOME

	31 December 2014	31 December 2013
Fee and commission income on:		
Letter of guarantee	27,249	26,958
Brokerage	11,649	8,802
Insurance	4,053	2,990
Expertise	3,638	2,769
Account management	3,063	4,991
Money transfers	2,593	2,662
Other	11,537	2,439
Total fee and commission income	**63,782**	**51,611**
Fee and commission expense on:		
Debit cards	6,347	173
Correspondent banks	560	2,048
CBRT Interbank money market transactions	504	686
Effective and future transactions	359	210
Money transfers	345	7
Other	3,777	4,037
Total fee and commission expense	**11,892**	**7,161**
Net fee and commission income	**51,890**	**44,450**

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

NOTE 27 - TRADING GAINS AND LOSSES, NET

	31 December 2014	31 December 2013
Trading securities	201	68,650
Derivative financial transactions	2,226	8,785
Net (Loss) / Income	**2,427**	**77,435**

Net trading income from derivative financial instruments includes gains and losses from spot and forward contracts, options, futures, and swaps due to changes in interest rates.

NOTE 28 - OTHER OPERATING EXPENSES

	31 December 2014	31 December 2013
Staff costs	**166,389**	**147,965**
Depreciation on property and equipment (Note 13)	8,800	3,913
Amortisation of intangible assets (Note 12)	3,193	945
Depreciation and amortisation	**11,993**	**4,858**
Operational lease expenses	29,245	25,097
Sundry taxes	13,910	13,246
Marketing and advertisement costs	1,418	5,223
Repair and maintenance expenses	1,355	1,217
Other	50,100	50,956
General administrative expenses	**96,028**	**95,739**
Total	**274,410**	**248,562**

Reserve for employment termination benefit, accrual for unused vacation rights and provision for personnel bonus are included in the staff costs in the table above.

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

NOTE 29 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

	31 December 2014		31 December 2013	
	Assets	Related liability	Assets	Related liability
Trading securities (Note 8)	138	113	1,508	1,435
Investment securities (Note 11)	367,143	444,860	1,747,870	1,673,762
Other assets pledged [1]	22,117	-	54,549	-
Total	**389,398**	**444,973**	**1,803,927**	**1,675,197**

[1] Other assets pledged are the collaterals given to the counter parties of the derivative financial instruments and other collaterals given.

Held for trading, available-for-sale and held-to-maturity securities whose total carrying amount is TL 367,281 as of 31 December 2014 (31 December 2013: TL 1,749,378) are pledged to banks and other financial institutions against funds obtained under repurchase agreements (Note 15 and Note 16).

Total amount of funds obtained under repurchase agreements is TL 402,255 of 31 December 2014 (31 December 2013: TL 1,675,197).

Held for trading, available-for-sale and held-to-maturity securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 25,203 (31 December 2013: TL 74,284).

At 31 December 2014, the Group's reserve deposits that are not available to finance the Group's day-to-day operations amount to TL 1,010,812 (31 December 2013: TL 750,960).

NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 31 December 2014 and 2013.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 19).

In respect of the further claims asserted against the Group ,which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial position.

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

NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit related commitments of the Group:

31 December 2014 [1]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	362,242	-	-	-	362,242
Letter of guarantees	1,855,242	-	-	-	1,855,242
Acceptance credits	43,905	-	-	-	43,905
Other commitments	1,056,720	-	-	-	1,056,720
Total	**3,318,109**	-	-	-	**3,318,109**

31 December 2013 [1]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	304,664	-	-	-	304,664
Letter of guarantees	1,992,151	-	-	-	1,992,151
Acceptance credits	56,516	-	-	-	56,516
Other commitments	981,818	-	-	-	981,818
Total	**3,335,149**	-	-	-	**3,335,149**

[1] Based on original maturities

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

NOTE 31 - SEGMENT ANALYSIS

The Group is organized into two main business segments which are organized and managed separately according to the nature of the products and services provided.

31 December 2014	Commercial Banking	Investment Banking	Other	Group
Net interest income [1]	486,225	(12,269)	430	474,386
Net fees and commission income and other operating income [1]	50,184	12,516	(1,482)	61,218
Dividend income	-	66	131	197
(Provisions for)/ recoveries from impairment loan receivables [1]	(123,607)	(13,848)	72,940	(64,515)
Trading gain / loss	1,945	(30,155)	576	(27,634)
Other operating expenses [1]	(255,903)	(17,264)	(1,243)	(274,410)
Profit before income tax	**158,844**	**(60,954)**	**71,352**	**169,242**
Tax provision	(262)	426	(30,454)	(30,290)
Profit after income tax	**158,582**	**(60,528)**	**40,898**	**138,952**
Non-controlling interest	-	-	232	232
Net profit	**158,582**	**(60,528)**	**40,666**	**138,720**
Asset and liabilities				
Segment assets	8,620,377	2,319,617	265,422	11,205,416
Total assets	**8,620,377**	**2,319,617**	**265,422**	**11,205,416**
Segment liabilities	6,284,936	2,347,299	1,605,953	10,238,188
Unallocated liabilities	(39,151)	25,112	981,267	967,228
Total liabilities	**6,245,785**	**2,372,411**	**2,587,220**	**11,205,416**

31 December 2013	Commercial Banking	Investment Banking	Other	Group
Net interest income [1]	369,624	42,012	809	412,445
Net fees and commission income and other operating income [1]	50,437	6,379	-	56,816
Dividend income	-	309	-	309
(Provisions for)/ recoveries from impairment loan receivables [1]	(125,202)	(22,354)	-	(147,556)
Trade gain / loss	-	(7,381)	-	(7,381)
Other operating expenses [1]	(234,250)	(14,294)	-	(248,544)
Profit before income tax	**60,609**	**4,671**	**809**	**66,089**
Tax provision	-	1,387	(14,310)	(12,923)
Profit after income tax	**60,609**	**6,058**	**(13,501)**	**53,166**
Non-controlling interest	-	-	(18)	(18)
Net profit	**60,609**	**6,058**	**(13,519)**	**53,148**
Asset and liabilities				
Segment assets	6,415,539	4,131,843	301,273	10,848,655
Total assets	**6,415,539**	**4,131,843**	**301,273**	**10,848,655**
Segment liabilities	4,997,171	4,085,445	1,166,899	10,249,515
Unallocated liabilities	-	-	599,140	599,140
Total liabilities	**4,997,171**	**4,085,445**	**1,766,039**	**10,848,655**

(1) Classification differences with income statement exist since business reporting of the Bank was used.

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

NOTE 32 - RELATED PARTY TRANSACTIONS

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 financial or operational decisions, The Group is controlled by Commercial Bank of Qatar owning 74.25% of the ordinary shares.

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

(i) Balances with related parties:

	31 December 2014		31 December 2013	
	Total	Share in total %	Total	Share in total %
Loans and advances to customers, net	85,969	1.1	2,184	0.03
Total assets	**85,969**		**2,184**	
Due to customers	1,235,049	22.61	656,281	13.82
Total liabilities	**1,235,049**		**656,281**	
Credit related commitments	145,472	0.003	122,205	0.003
Total commitments and contingent liabilities	**145,472**		**122,205**	

(ii) Transactions with related parties:

	31 December 2014		31 December 2013	
	Total	Share in total %	Total	Share in total %
Interest income on loans and advances to customers	298	0.03	1,096	0.18
Commission income on credit related commitments	2,279	-	2,596	-
Total interest and fee income	**2,577**		**3,692**	
Interest expense on deposits	73,616	18.42	17,982	7.54
Other operating expense	-	-	-	-
Total interest and fee expense	**73,616**		**17,982**	

(iii) Balances with directors and other key management personnel:

Salaries and other benefits paid to the Group's key management approximately amount to TL 15,492 as of 31 December 2014 (31 December 2013: TL 8,885).

NOTE 33 - ASSETS UNDER MANAGEMENT

At 31 December 2014, the Group manages 5 (31 December 2013: 5) mutual funds which were established under Capital Markets Board Regulations. At 31 December 2014, the Funds' investment portfolio mainly includes government bonds, treasury bills and share certificates amounting to TL 66,515 (31 December 2013: TL 66,068). In accordance with the Funds' statute, the Group purchases and sells marketable securities for the Funds, markets their participation certificates and provides other services and charges management fees ranging from 0.000137% to 0.010%. (31 December 2013: 0.003% to 0.010%). At 31 December 2014, management fees earned by the Group amounted to TL 858 (31 December 2013: TL 786).

NOTE 34 – SUBSEQUENT EVENTS

None.