KPMG

Anadolubank Anonim Şirketi
And Its Subsidiaries

Financial Statements
As At and For The Year Ended
31 December 2014
With Independent Auditors' Report Thereon

16 June 2015

This report contains the "Independent Auditors' Report on Financial Statements" comprising 1 page and; the "Financial statements and their explanatory notes" comprising 67 pages.

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Independent Auditors' Report

To the Board of Directors of Anadolubank Anonim Şirketi,

Introduction

We have audited the accompanying consolidated financial statements of Anadolubank Anonim Şirketi and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement and the consolidated statements of profit or loss and 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgments, 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 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 on the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards

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

Orhan Akova
Partner

16 June 2015
Istanbul, Turkey

Notes to the consolidated financial statements

ANADOLUBANK 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 stated)

	Notes	**31 December 2014**	**31 December 2013**
ASSETS			
Cash and cash equivalents	*5*	59,656	61,307
Balances with central bank	*6*	241,740	269,546
Reserve deposits at central bank	*6*	907,075	528,265
Loans and advances to banks and other financial institutions	*5*	602,260	340,836
Receivables from reverse repurchase transactions	*5*	250,077	150,032
Trading assets	*7*	134,629	139,755
Derivative financial assets held for trading	*8*	85,103	75,670
Investment securities	*9*	1,162,971	973,603
Available for sale		*145,603*	*755,941*
Held to maturity		*1,017,368*	*217,662*
Loans and receivables	*10, 11*	7,421,767	6,197,691
Property and equipment	*12*	121,199	26,929
Intangible assets	*13*	2,839	2,635
Deferred tax assets	*18*	9,070	13,865
Other assets	*14*	287,924	238,190
Total assets		**11,286,310**	**9,018,324**
LIABILITIES			
Deposits from banks	*15*	404,240	323,528
Deposits from customers	*15*	7,248,196	5,604,217
Obligations under repurchase agreements	*15*	998,480	811,840
Funds borrowed	*16*	746,877	668,432
Derivative financial liabilities held for trading	*8*	51,934	33,620
Deferred tax liabilities	*18*	7,731	-
Other liabilities and provisions	*17*	417,812	350,214
Current tax liability	*18*	7,033	317
Total liabilities		**9,882,303**	**7,792,168**
EQUITY	*19*		
Share capital		602,619	602,619
Legal reserves		47,880	42,936
Other reserves		60	60
Translation reserve		53,458	66,526
Fair value reserve		(15,634)	(49,404)
Retained earnings		713,184	561,279
Total equity attributable to equity holders of the Bank		**1,401,567**	**1,224,016**
Non-controlling interests	*19*	**2,440**	**2,140**
Total equity		**1,404,007**	**1,226,156**
Total liabilities and equity		**11,286,310**	**9,018,324**

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Notes	2014	2013
Continuing operations:			
Interest income:			
Interest on loans and receivables	*21*	794,190	604,797
Interest on marketable securities	*21*	99,242	67,022
Interest on Loans and advances to banks and other financial institutions	*21*	1,788	472
Interest on other money market placements	*21*	10,736	10,662
Other interest income	*21*	1,166	5,007
Total interest income		**907,122**	**687,960**
Interest expenses:			
Interest on deposits	*21*	(432,068)	(268,286)
Interest on other money market deposits	*21*	(21,578)	(13,885)
Interest on funds borrowed	*21*	(24,279)	(14,728)
Other interest expenses	*21*	(956)	(406)
Total interest expenses		**(478,881)**	**(297,305)**
Net interest income		**428,241**	**390,655**
Fee and commission income	*22*	93,553	72,192
Fee and commission expenses	*22*	(17,492)	(14,111)
Net fee and commission income		**76,061**	**58,081**
Trading income from marketable securities		92,841	68,771
Trading gains/(losses) from derivatives, net		(31,943)	80,752
Foreign exchange gain/(loss), net		49,673	(138,389)
Other income		11,149	11,099
Revenue		**626,022**	**470,969**
Salaries and employee benefits	*23*	(188,978)	(184,849)
Provision for possible loan losses, net of recoveries	*10*	(130,064)	(56,327)
Depreciation and amortisation		(9,384)	(8,364)
Taxes other than on income		(21,264)	(14,596)
Other expenses	*24*	(80,983)	(68,903)
Profit before tax		**195,349**	**137,930**
Taxation	*18*	(39,894)	(27,819)
Profit for the year		**155,455**	**110,111**
Profit for the year attributable to:			
Equity holders of the Bank		155,103	110,133
Non-controlling interests		352	(22)
Profit for the year		**155,455**	**110,111**
Earnings per share from continuing operations (full TL)		0.002591	0.001835

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Notes	2014	2013
Profit for the year		**155,455**	**110,111**
Other comprehensive income:			
Foreign currency translation differences for foreign operations		(8,963)	45,197
Fair value reserve of available for sale financial assets		33,770	(199,801)
Other comprehensive income for the year, net of income taxes		**24,807**	**(154,604)**
Total comprehensive income for the year		**180,262**	**(44,493)**
Total comprehensive income attributable to:			
Equity holders of the Bank		179,854	(44,485)
Non-controlling interests		408	(8)
Total comprehensive income for the year		**180,262**	**(44,493)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

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

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Legal reserves**	**Other reserves**	**Translation reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balances at 1 January 2013	*19*	**602,619**	**34,123**	**60**	**21,343**	**150,397**	**459,959**	**1,268,501**	**2,148**	**1,270,649**
Net profit for the year		-	-	-	-	-	**110,133**	**110,133**	**(22)**	**110,111**
Total other comprehensive income		-	-	-	**45,183**	**(199,801)**	-	**(154,618)**	**14**	**(154,604)**
- Other comprehensive income		-	-	-	-	*(199,801)*	-	*(199,801)*		*(199,801)*
- Currency translation adjustments		-	-	-	*45,183*	-	-	*45,183*	*14*	*45,197*
Total comprehensive income for the year		-	-	-	**45,183**	**(199,801)**	**110,133**	**(44,485)**	**(8)**	**(44,493)**
Transactions with owners, recorded directly in equity										
Gains on sale of assets		-	-	-	-	-	-		-	-
Transfers to other reserves		-	8,813	-	-	-	(8,813)		-	-
Balances at 31 December 2013	*19*	**602,619**	**42,936**	**60**	**66,526**	**(49,404)**	**561,279**	**1,224,016**	**2,140**	**1,226,156**

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Legal reserves**	**Other reserves**	**Translation reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balances at 1 January 2014	*19*	**602,619**	**42,936**	**60**	**66,526**	**(49,404)**	**561,279**	**1,224,016**	**2,140**	**1,226,156**
Net profit for the year		-	-	-	-	-	**155,103**	**155,103**	**352**	**155,455**
Total other comprehensive income		-	-	-	**(8,963)**	**33,770**	-	**24,807**	-	**24,807**
- Other comprehensive income		-	-	-	-	*33,770*	-	*33,770*	-	*33,770*
- Currency translation adjustments		-	-	-	*(8,963)*	-	-	*(8,963)*	-	*(8,963)*
Total comprehensive income for the year		-	-	-	**(8,963)**	**33,770**	**155,103**	**179,910**	**352**	**180,262**
Transactions with owners, recorded directly in equity										
Gains on sale of assets		-	-	-	(4,105)	-	1,746	(2,359)	(52)	(2,411)
Transfers to other reserves		-	4,944	-	-	-	(4,944)	-	-	-
Balances at 31 December 2014	*19*	**602,619**	**47,880**	**60**	**53,458**	**(15,634)**	**713,184**	**1,401,567**	**2,440**	**1,404,007**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Notes	**2014**	**2013**
Cash flows from operating activities:			
Profit for the year		155,455	110,111
Adjustments for:			
Taxation	*18*	39,894	27,819
Provision for loan losses		130,064	56,327
Depreciation and amortisation		9,384	8,364
Provision for retirement pay liability	*17*	6,371	2,554
Unused vacation accruals	*17*	1,284	790
Derivative financial instruments		8,881	(30,446)
Currency translation differences		(8,963)	45,198
Net interest income		(428,241)	(390,655)
Other		86,492	(15,632)
Operating profit before changes in operating assets/liabilities:		**621**	**(185,570)**
Reserve deposits at the Central Bank		(349,353)	(197,743)
Financial assets at fair value through profit or loss		1,479	37,366
Loans and receivables		(1,481,518)	(1,184,221)
Change in funds borrowed (net)		75,943	298,518
Other assets		(32,255)	(86,566)
Deposit with other banks and customers		1,716,055	1,221,396
Other liabilities and provisions		163,014	85,108
		93,986	**(11,712)**
Interest paid		(468,051)	(292,323)
Interest received		904,955	655,801
Retirement benefits paid	*17*	(5,135)	(2,323)
Unused vacation accruals	*17*	(2,182)	(952)
Income taxes paid		(25,491)	(32,366)
Cash provided by operating activities		**498,082**	**316,125**
Cash flows from investing activities			
Acquisition of held to maturity investment securities	*9*	(756,283)	(21,120)
Proceeds from redemption of held to maturity investment securities	*9*	31,680	4,481
Acquisition of property and equipment	*12*	(103,229)	(10,366)
Proceeds from sale of property and equipment	*12*	2,391	773
Acquisition of intangible assets	*13*	(615)	(800)
Proceeds from intangible assets	*13*	-	138
Acquisitions of available-for-sale investment securities		(141,615)	(540,371)
Proceeds from sale of available-for-sale investment securities		760,500	378,930
Cash used in investing activities		**(207,171)**	**(188,335)**
Cash flows from financing activities		-	-
Effect of exchange rate fluctuations on cash held		66,865	57,771
Net increase in cash and cash equivalents		357,776	185,561
Cash and cash equivalents at the beginning of the year	*5*	754,231	568,670
Cash and cash equivalents at the end of the year	**5**	**1,112,007**	**754,231**

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

1. Reporting entity

Anadolubank Anonim Şirketi (the "Bank"), started its operations on 25 September 1997 in Turkey under the Turkish Banking Law and the Commercial Code pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 108 (31 December 2013: 115) domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 34380 Bomonti-Şişli / Istanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ was founded by Hamdi Başaran in 1956 with the name "Hamdi Başaran Topkapı Oxygen Plant" to implement modern industrial gas production. The growth of the company started in 1967 with the production of oxygen, nitrogen and argon gases in liquid form for the first time in Turkey. Today, Habaş is one of the major companies of Turkey, producing industrial and medical gases, steel, electrical energy, heavy machinery, distributing Liquified Petroleum Gas ("LPG"), Liquified Natural Gas ("LNG") and Compressed Natural Gas ("CNG"), offering sea transportation services for LPG and operating sea ports.

The Bank has four subsidiaries which are Anadolubank International Banking Unit Limited ("Anadolubank International"), Anadolu Yatırım Menkul Kıymetler AŞ ("Anadolu Yatırım"), Anadolu Faktoring AŞ ("Anadolu Faktoring"), and Anadolubank Nederland N.V. ("Anadolubank Nederland").

Anadolubank International was founded in April 2003 and the Bank owned 99.4% of total shares. With the board of directors resolution dated 31 July 2013 it is decided to liquidate Anadolubank International. The liquidation was registered on 28 March 2014 with liqudaition approval document dated 24 June 2014 numbered MŞ8358 signed by K.K.T.C. Resmi Kabz Memurluğu ve Mukayyitlik Dairesi. The liquidation process was completed on 4 April 2014 in the Official Gazette numbered 90. At the date of the liquidation the total assets were amounting to TL 14,180, total equity was amounting to TL 13,962 and prior years profit was amount to TL 218. Because the Anadolubank International is not assessed as a separate operating operation of the Bank, the amounts related to Anadolubank International is not assessed as discontinued operation and prior year financial statements have not been restated.

The Bank has 82% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 is and mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank has acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret AŞ (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100.00% ownership in Anadolubank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank and its Turkish subsidiaries 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"), the Capital Markets Board of Turkey, the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in USD and in EUR in accordance with the regulations of the countries in which they operate.

The consolidated financial statements as at 31 December 2014 of the Bank are authorised for issue by the management on 16 June 2015. The General Assembly and certain regulatory bodies have the power to amend the financial statements after issue.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following assets and liabilities which are stated at their fair values if reliable measures are available: derivative financial assets and liabilities held for trading purposes, financial assets at fair value through profit or loss and available for sale financial assets.

(c) Functional currency and presentation currency

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

(d) Accounting in hyperinflationary countries

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. *IAS 29* requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of *IAS 29* is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). This, together with the sustained positive trend in quantitative factors, such as the stabilisation in capital and money markets, decrease in interest rates and the appreciation of TL against the USD and other hard currencies have been taken into consideration to categorise Turkey as a non-hyperinflationary economy under *IAS 29* effective from 1 January 2006.

2. Basis of preparation *(continued)*

(e) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 8 – Derivative financial assets and liabilities held for trading purpose
- Note 10 – Loans and receivables
- Note 17 – Other liabilities and provisions
- Note 18 – Income taxes
- Note 26 – Financial risk management

2.6. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Offsetting Financial Assets and Financial Liabilities (*Amendments to IAS 32*)
- IFRIC 21 Levies

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

As a result of the amendments to IAS 32, the Bank has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The change did not have a material impact on the Group's consolidated financial statements.

IFRIC 21 Levies

As a result of IFRIC 21 Levies, the Group has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The change did not have a material impact on the Group's consolidated financial statements.

3. Significant accounting policies

Except the changes disclosed in Note 2.6, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3.1. Basis of consolidation

(i) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Non-controlling interests

Non-controlling interests ("NCI") are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

3. Significant accounting policies *(continued)*

3.2. Foreign currency

i) Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for Anadolubank International and Anadolubank Nederland. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss and other comprehensive income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Group for foreign currency translation are as follows:

	EUR / TL	USD / TL
31 December 2014	2.8272	2.3269
31 December 2013	2.9365	2.1343

ii) Foreign operations

The assets and liabilities of foreign subsidiaries are translated into presentation currency of the Group at the rate of exchange ruling at the reporting date. The income statement of foreign subsidiaries is translated at the weighted average exchange rates after the acquisition date. On consolidation exchange differences arising from the translation of the net investment in foreign entity are included in equity as currency translation reserve.

Foreign currency differences, arising from foreign subsidiaries, are recognised in other comprehensive income ("OCI"), under the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss, as part of the profit or loss on disposal.

3.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for available-for-sale investment securities calculated on an effective interest basis,

3. Significant accounting policies *(continued)*

3.4. Fees and commission

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3.5. Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of available for sale securities.

3.6. Dividends

Dividend income is recognised when the right to receive the income is established.

3.7. Lease payments made

Payments made under operating leases are recognised in profit or loss and other comprehensive income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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 rate on the remaining balance of the liability.

3. Significant accounting policies *(continued)*

3.8. Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in profit or loss and other comprehensive income.

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.

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

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities

Recognition

The Group initially recognises loans, factoring receivables and advances, deposits and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Classification

Financial assets:

The Group classifies its financial assets into one of the following categories:

Loans and receivables

Held to maturity

Available-for-sale; and

At fair value through profit or loss, and within this category as:

- held for trading.

See 3.10, 3.11, 3.12 and 3.13.

Financial liabilities:

The Group classifies its financial liabilities as measured at amortised cost. See 3.19.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements 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 International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

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

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. In order to determine allowance rate for portfolio basis, the Group uses historical allowance rates based on its own statistical data.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest rate, penalty or principal payments;
- 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;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

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

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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 legal and regulatory procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in profit or loss.

Repurchase and resale transactions

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

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

3.10. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3. Significant accounting policies *(continued)*

3.11 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3.12. Loans, receivables and advances

Loans, receivables and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investment – available-for-sale" or "Financial assets designated at fair value through profit or loss". After initial measurement, amounts loans, receivables and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in "Interest income" in profit or loss. The losses arising from impairment are recognised in profit or loss in "Net impairment loss on financial assets".

3. Significant accounting policies *(continued)*

3.13. Investment securities

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Group has the intent and ability to hold until maturity. Investment securities held-to-maturity is initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in the consolidated income statement.

Available-for-sale financial investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale reserve".

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the consolidated statement of income.

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

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

3. Significant accounting policies *(continued)*

3.14. Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful lives for the current and comparative periods are as follows:

	Years
Buildings and land improvements	50
Machinery and equipment	5
Office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	shorter of the useful life of the asset or the lease term

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies *(continued)*

3.15. Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to five years.

Amortisation methods, useful lives and residual values are reserved at each reporting date and adjusted if appropriate.

3.16 Assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.17. Leases

The Group as lessee

Operating leases

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

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

Finance leases

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

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

3. Significant accounting policies *(continued)*

3.18. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

An impairment loss in respect of other assets, impairment losses recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.19. Deposits and funds borrowed

Deposits are the Bank's main source of debt funding. Deposits of the Bank comprised of the deposits from banks and customers.

Deposits and funds borrowed are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.20. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3. Significant accounting policies *(continued)*

3.21. Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee’s probable future liability arising from the retirement. IAS 19 (2011) (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the bank’s obligation under defined employee plans. IAS 19 (2011) (“Employee Benefits”) has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

Short-term employee benefits

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

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

3.22. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, whose operating results are reviewed regularly by the Group’s Management Committee (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis.

3.23. Events after the reporting period

Events after the reporting period that provide additional information about the Group’s position at the reporting dates (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3. Significant accounting policies *(continued)*

3.24. New standards and interpretations not yet 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.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

IFRS 15 - ***Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

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

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.
- IFRS 14 Regulatory Deferral Accounts.
- 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).
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards

4. Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the chief operating decision maker, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking

Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking

Includes loans, deposits and other transactions and balances with corporate customers.

Treasury

Undertakes the Group's funding and centralised risk management activities through borrowings, and investing in liquid assets such as short-term placements and corporate and government debt securities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Investment banking

Includes the Group's trading and corporate finance activities.

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated)

4. Operating segments *(continued)*

Information about operating segments

31 December 2014	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Net interests, fees and commission income	167,211	225,255	101,150	10,368	318	504,302
Other income and other expenses, net	(95,919)	(148,882)	(58,023)	(5,947)	(182)	(308,953)
Profit before taxes	**71,292**	**76,373**	**43,127**	**4,421**	**136**	**195,349**

31 December 2014	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Segment assets	2,066,028	5,376,806	3,395,690	31,499	416,287	11,286,310
Total assets	**2,066,028**	**5,376,806**	**3,395,690**	**31,499**	**416,287**	**11,286,310**
Segment liabilities	1,747,719	4,658,466	2,931,595	16,477	528,046	9,882,303
Equity and non-controlling interests					1,404,007	1,404,007
Total liabilities and equity	**1,747,719**	**4,658,466**	**2,931,595**	**16,477**	**1,932,053**	**11,286,310**
Other segment assets:						
Capital expenditures	-	-	-	-	103,844	**103,844**
Depreciation and amortisation expenses	-	-	-	-	9,384	**9,384**
Other non-cash income/expenses	34,430	50,324	46,189	2,140	-	**133,083**

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

4. Operating segments *(continued)*

Information about operating segments *(continued)*

31 December 2013	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Consolidated**
Net interests, fees, and commissions income	161,754	182,486	98,985	5,463	48	448,736
Revenue and other expenses, net	(112,029)	(126,387)	(68,555)	(3,784)	(51)	(310,806)
Profit before taxes	**49,725**	**56,099**	**30,430**	**1,679**	**(3)**	**137,930**

31 December 2013	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Consolidated**
Segment assets	1,987,950	4,246,902	2,291,540	79,146	412,786	9,018,324
Total assets	**1,987,950**	**4,246,902**	**2,291,540**	**79,146**	**412,786**	**9,018,324**
Segment liabilities	1,938,787	3,839,160	1,631,072	32,724	350,425	7,792,168
Equity and non-controlling interests					1,226,156	1,226,156
Total Liabilities and Equity	**1,938,787**	**3,839,160**	**1,631,072**	**32,724**	**1,576,581**	**9,018,324**
Other segment assets:						
Capital expenditures	-	-	-	-	11,166	**11,166**
Depreciation and amortisation expenses	-	-	-	-	8,364	**8,364**
Other non-cash income/expenses	33,028	35,374	22,002	1,416	-	**91,820**

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

5. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash and cash equivalents	59,656	61,307
Loans and advances to banks (with original maturity of less than 3 months)	602,260	340,836
Unrestricted balances with the central bank	241,740	269,546
Receivables from reverse repurchase transactions	250,077	150,032
Total cash and cash equivalents in the consolidated statement of financial position	**1,153,733**	**821,721**
Blocked loans and advances to banks and other financial institutions	(26,077)	(61,179)
Loans and advances to banks (with original maturity of more than 3 months)	(15,340)	(6,200)
Interest accruals on cash and cash equivalents	(309)	(111)
Cash and cash equivalents in the consolidated statement of cash flows	**1,112,007**	**754,231**

As at 31 December 2014, deposits with banks amounted to 26,077 (31 December 2013: TL 61,179) are blocked at financial institutions for the interest rate swaps and credit default swaps entered into by the Group.

6. Balances with central bank

a) Unrestricted balances with central bank

	31 December 2014	31 December 2013
Demand deposits-TL	129,317	202,205
Demand deposits-FC	112,423	67,341
Total	**241,740**	**269,546**

b) Reserve deposits with central bank

	31 December 2014	31 December 2013
Foreign currency reserve	907,075	528,265
Total	**907,075**	**528,265**

Reserve deposits that are kept as blockage in Central Bank of Turkey (CBRT) for foreign currency liabilities. The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or EUR at the rates of 6% and 11%, respectively as per the Communiqué no.2005/1 "Reserve Deposits" of the CBRT. After the change in communiqué reserve ratio for Turkish Lira liabilities has been changed to between 5% and 13% according to the maturity of the liabilities and it has been taken into consideration as of the report date.

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated)

7. Trading assets

	31 December 2014		31 December 2013	
Debt instruments	**Carrying value**	**Effective interest rate (%)**	**Carrying value**	**Effective interest rate (%)**
Eurobonds issued by the Turkish Government	15	2.10-7.00	533	2.55 – 6.94
Government bonds in TL	74,456	8.01-9.03	74,410	7.98 – 10.19
Equity securities	12,057	-	11,528	-
Eurobonds issued by other Governments, Public and Private Eurobonds	48,101	15.98	53,284	15.98
Total	**134,629**		**139,755**	

Debt instruments are given as collateral under repurchase agreements:

	31 December 2014	31 December 2013
Deposited at financial institutions for repurchase transactions	73,783	79,684

As at 31 December 2014, the carrying and the nominal values of government securities kept at Istanbul Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Clearing and Custody Incorporation) and in Capital Markets Board of Turkey for legal requirements and as a guarantee for stock exchange and money market operations are amounting to TL 497 (31 December 2013: TL 4,569).

8. Derivative financial assets / liabilities held for trading purpose

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

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

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

8. Derivative financial assets / liabilities held for trading purpose *(continued)*

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date and option pricing models. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	31 December 2014								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	3,368	17,561	1,506,271	1,343,494	47,697	54,363	60,717	-	-
Forward sale contract	-	-	1,456,598	1,292,506	48,272	56,642	59,178	-	-
Currency swap purchase	81,735	34,373	3,059,898	2,375,436	294,019	-	203,931	186,512	-
Currency swap sale	-	-	3,086,614	2,377,580	292,583	-	211,996	204,455	-
Put option purchase	-	-	349,354	218,664	130,690	-	-	-	-
Put option sale	-	-	349,351	216,501	132,850	-	-	-	-
Total	**85,103**	**51,934**	**9,808,086**	**7,824,181**	**946,111**	**111,005**	**535,822**	**390,967**	**-**

	31 December 2013								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	5,350	3,340	909,870	876,429	19,509	13,644	288	-	-
Forward sale contract	-	-	876,256	842,897	19,477	13,595	287	-	-
Currency swap purchase	70,320	29,896	2,870,692	2,129,231	45,483	161,392	459,226	75,360	-
Currency swap sale	-	-	2,864,760	2,132,844	43,923	158,572	455,932	73,489	-
Put option purchase	-	384	333,186	169,691	108,919	11,221	43,355	-	-
Put option sale	-	-	337,239	173,360	108,919	11,221	43,739	-	-
Total	**75,670**	**33,620**	**8,192,003**	**6,324,452**	**346,230**	**369,645**	**1,002,827**	**148,849**	**-**

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

9. Investment securities

	31 December 2014		31 December 2013	
	Amount	**Effective interest rate (%)**	**Amount**	**Effective interest rate (%)**
Debt instruments:				
Eurobonds issued by the Turkish Government	-	-	688,800	4.90 – 7.69
Foreign currency denominated bonds	145,603	0.36 – 7.00	67,141	0.73 – 4.78
Total available for sale securities	**145,603**		**755,941**	
Debt instruments:				
Eurobonds issued by the Turkish Government	819,416	5.62-6.15	217,662	0.93 – 16.47
Foreign currency denominated bonds	197,952	1.27-7.0	-	-
Total held to maturity securities	**1,017,368**		**217,662**	

Carrying value of held-to-maturity debt securities given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	31 December 2014	**31 December 2013**
Deposited at financial institutions for repurchase transactions	137,931	125,697
Other collaterals	863,864	82,447
Total	**1,001,795**	**208,144**

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

9. Investment securities *(continued)*

Movement for held to maturity investments

	31 December 2014	31 December 2013
Balances at beginning of period	**217,662**	**175,198**
Foreign currency differences on monetary assets	68,680	25,588
Purchases during the period(2)	756,283	21,120
Disposals through sales and redemptions	(31,680)	(4,481)
Allowance for impairment	-	-
Changes in amortised cost(1)	6,423	4,074
Transfer to available for sale portfolio	-	(3,837)
Balances at end of period	**1,017,368**	**217,662**

(1) Changes in amortised cost include accrual interest on securities.

(2) Includes a classification on 28 April 2014 from the portfolio of available for sale investment securities to the portfolio of held to maturity investment securities cost amount to USD 218 million Eurobond.

As at 31 December 2014, carrying values of underlying financial assets classified as held-to-maturity investments collateralised against repurchase agreements were amounted to TL 137,931 (31 December 2013: TL 125,697).

As at 31 December 2014, carrying values of underlying financial assets classified as available-for-sale investments collateralised against repurchase agreements are amounted to TL 41,574 (31 December 2013: TL 712,060).

As at 31 December 2014, there is no carrying and the nominal values of the securities issued by the Turkish Government kept at the Central Bank of Turkey, Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi ("Takasbank" – Istanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem ve Opsiyon Borsası Anonim Şirketi ("Derivatives Exchange") for legal requirements and as a guarantee for stock exchange and money market operations. (31 December 2013: TL 10,129 and TL 7,300; respectively).

As at 31 December 2014, carrying values and nominal values of held to maturity securities kept at De Nederlansche Bank ("Dutch Central Bank") as reserve requirement against the Group's foreign operations in the Netherlands are amounted to TL 43,948 and TL 42,408 (31 December 2013: TL 70,999 and TL 72,318); respectively.

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

10. Loans and receivables

	31 December 2014						
	Amount				Effective interest rate (%)		
	TL	FC	FC indexed	Total	TL	FC	FC indexed
Corporate loans	4,394,219	1,766,984	520,177	6,681,380	5.50-36.97	1.75-12.7	3.00-7.50
Consumer loans	379,710	1,393	28,447	409,550	1.92-24.00	3.60-4.50	3.36-11.88
Credit cards	86,628	19	-	86,647	24.24	-	-
Factoring receivables	205,289	-	-	205,289	8.01-38.30	-	-
Total performing loans	**5,065,846**	**1,768,396**	**548,624**	**7,382,866**			
Non-performing loans	-	-	-	248,212	-	-	-
Allowance for:	-	-	-	-	-	-	-
Individually impaired loans	-	-	-	(132,598)	-	-	-
Collectively impaired loans	-	-	-	(76,713)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**7,421,767**	**-**	**-**	**-**

	31 December 2013						
	Amount				Effective interest rate (%)		
	TL	FC	FC indexed	Total	TL	FC	FC indexed
Corporate loans	3,727,154	1,176,379	463,412	5,366,945	7.20-37.02	1.91-8.05	3.15-10.50
Consumer loans	500,633	1,087	52,040	553,760	2.64-30.60	3.60-6.00	3.60-11.88
Credit cards	128,312	185	-	128,497	24.24	-	-
Factoring receivables	152,917	-	-	152,917	7.18-32.50	-	-
Total performing loans	**4,509,016**	**1,177,651**	**515,452**	**6,202,119**			
Non-performing loans	-	-	-	177,860	-	-	-
Allowance for:	-	-	-	-	-	-	-
Individually impaired loans	-	-	-	(116,127)	-	-	-
Collectively impaired loans	-	-	-	(66,161)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**6,197,691**	**-**	**-**	**-**

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

10. Loans and receivables *(continued)*

The specific allowance for possible loan losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

Movements in the reserve for possible loan losses:

	31 December 2014	31 December 2013
Reserve at beginning of the period/year	182,288	177,055
Provision for possible loan losses, net of recoveries	130,064	56,327
- Provision for possible loan losses	*194,024*	*75,898*
- Recoveries	*(63,960)*	*(19,571)*
Provision, net of recoveries	**130,064**	**56,327**
Loans written off during the period/year	(101,643)	(56,493)
Foreign currency differences on monetary assets	(1,398)	5,399
Reserve at end of the period/year	**209,311**	**182,288**

11. Factoring receivables

As at 31 December 2014 and 2013, short-term and long-term factoring receivables included in the loans and receivables are as follows:

	31 December 2014	31 December 2013
Short-term	198,013	147,686
Long-term	7,276	5,231
Total	**205,289**	**152,917**

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

12. Property and equipment

Movements of property and equipment as at and for the year ended 31 December 2014 and 2013 are as follows:

	Buildings	Motor vehicles	Furniture, office equipment and leasehold improvements	Total
Cost				
Opening balance, 1 January 2013	3,799	8,662	78,527	90,988
Additions	-	17	10,349	10,366
Disposals	-	(727)	(46)	(773)
Closing balance, 31 December 2013	**3,799**	**7,952**	**88,830**	**100,581**
Opening balance, 1 January 2014	3,799	7,952	88,830	100,581
Additions	97,934	39	5,256	103,229
Disposals	-	(365)	(2,026)	(2,391)
Closing balance, 31 December 2014	**101,733**	**7,626**	**92,060**	**201,419**
Accumulated depreciation:				
Opening balance, 1 January 2013	1,160	5,552	60,182	66,894
Additions	76	1,057	6,298	7,431
Disposals	-	(660)	(13)	(673)
Closing balance, 31 December 2013	**1,236**	**5,949**	**66,467**	**73,652**
Opening balance, 1 January 2014	1,236	5,949	66,467	73,652
Additions	158	902	7,735	8,795
Disposals	-	(254)	(1,973)	(2,227)
Closing balance, 31 December 2014	**1,394**	**6,597**	**72,229**	**80,220**
Net carrying value				
1 January 2013	2,639	2,400	28,648	33,687
31 December 2013	2,563	2,003	22,363	26,929
31 December 2014	100,339	1,029	19,831	121,199

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

13. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2014 and 2013 are as follows:

	Software	Other intangibles	Total
Cost			
Opening balance, 1 January 2013	14,664	1,356	16,020
Additions	800	-	800
Disposals	(138)	-	(138)
Closing balance, 31 December 2013	**15,326**	**1,356**	**16,682**
Opening balance, 1 January 2014	15,464	1,356	16,820
Additions	615	-	615
Disposals	-	-	-
Closing balance, 31 December 2014	**16,079**	**1,356**	**17,435**
Accumulated amortisation:			
Opening balance, 1 January 2013	11,758	1,356	13,114
Additions	933	-	933
Disposals	-	-	-
Closing balance, 31 December 2013	**12,691**	**1,356**	**14,047**
Opening balance, 1 January 2014	12,651	1,356	14,007
Additions	589	-	589
Disposals	-	-	-
Closing balance, 31 December 2014	**13,240**	**1,356**	**14,596**
Net carrying value			
1 January 2013	2,906	-	2,906
31 December 2013	2,635	-	2,635
31 December 2014	2,839	-	2,839

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

14. Other assets

	31 December 2014	31 December 2013
Transfer cheques	133,254	106,522
Collateral for leveraged operations(1)	79,301	47,248
Collateral for derivatives	33,672	4,443
Credit card payments	19,320	49,052
Assets held for resale	10,572	8,208
Prepaid expenses	3,289	2,262
Advances given	152	3,984
Prepaid tax	-	4,217
Other	8,364	12,254
Total	**287,924**	**238,190**

(1) Collateral for leveraged operations are composed of the given colleterals for transactions, which take place through Anadolu Yatırım AŞ.

As at 31 December 2014, TL 10,572 (31 December 2013: TL 8,208) of the other assets is comprised of foreclosed real estates acquired by the Bank against its impaired receivables.

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

15. Deposits

Deposits from banks

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Demand	19	28,421	-	-	316	58,482	-	-
Time	83,876	291,924	9.40-10.25	0.12-3.06	39,040	225,690	8.00-9.00	0.42-2.25
Total	**83,895**	**320,345**			**39,356**	**284,172**		

Deposits from customers

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Saving:								
Demand	59,579	384,293	-	-	50,388	431,300	-	-
Time	2,451,758	1,715,339	6.50-11.50	0.15-4.1	2,311,031	782,556	4.25-10.25	0.25-4.00
	2,511,337	**2,099,632**			**2,361,419**	**1,213,856**		
Commercial and other deposits:								
Demand	235,707	195,716	-	-	226,285	94,935	-	-
Time	1,201,543	1,004,261	6.50-11.50	1.69-2.59	839,114	868,608	4.00-10.00	0.25-4.25
	1,437,250	**1,199,977**			**1,065,399**	**963,543**		
Total	**3,948,587**	**3,299,609**			**3,426,818**	**2,177,399**		

Other money market deposits

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Obligations under repurchase agreements:								
Due to banks	59,553	938,927	8.38-10.05	0.10-1.47	65,219	746,621	4.08-7.02	0.29-1.60
Total	**59,553**	**938,927**			**65,219**	**746,621**		

As at 31 December 2014, carrying values of underlying financial assets at fair value through profit or loss collateralised against repurchase agreements are amounted to 73,783 TL (31 December 2013: TL 79,684), carrying values of underlying financial assets classified as held-to-maturity investments collateralised against repurchase agreements are amounted to TL 137,931 (31 December 2013: TL 125,697) and carrying values of underlying financial assets classified as available-for-sale investments collateralised against repurchase agreements are amounted to TL 41,574 (31 December 2013: TL 712,060).

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

16. Funds borrowed

	31 December 2014				31 December 2013			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term(*)	154,629	538,808	1.54-12.08	1.20-1.54	120,708	499,929	4.75-10.50	1.32-3.62
Medium/long term(*)	12,655	40,785	5.25-5.75	1.00	5,176	42,619	5.00-9.25	1.00-3.40
Total	**167,284**	**579,593**			**125,884**	**542,548**		

(*) Borrowings are presented considering their original maturities.

Repayment plans of funds borrowed are as follows:

	31 December 2014	31 December 2013
2014	--	622,817
2015	746,877	45,615
Total	**746,877**	**668,432**

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

17. Other liabilities and provisions

	31 December 2014	31 December 2013
Transfer orders	187,245	147,517
Collections from guarantee cheques	32,576	53,063
Collateral for leveraged operations	79,380	47,355
Payables due from credit cards	28,876	29,683
Other various provisions	38,967	27,402
Taxes other than on income	20,424	15,535
Reserve for employee severance indemnity and vacation	12,413	12,075
- *Employee severance indemnity*	*6,430*	*5,194*
- *Vacation pay liability*	*5,983*	*6,881*
Other	17,931	17,584
Total	**417,812**	**350,214**

The movement of employee severance indemnity is as follows:

	31 December 2014	31 December 2013
Net liability at the beginning of the year	5,194	4,963
Benefit paid directly	(5,135)	(2,323)
Total expense recognised in the income statement	6,371	2,554
Total	**6,430**	**5,194**

IAS 19 (2011) requires that all actuarial gains and losses to be recognised immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

The Group recognised all actuarial gains and losses under profit or loss accounts for the years ended 31 December 2014 and 2013 due to immaterial effect of the related amount.

The movement of vacation pay liability is as follows:

	31 December 2014	31 December 2013
Total provision at the beginning of the year	6,881	7,043
Paid during the year	(2,182)	(952)
Total expense recognised in the profit or loss	1,284	790
Total	**5,983**	**6,881**

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

18. Income taxes

Major components of income tax expense:

	2014	2013
Current income taxes:		
Current income tax charge	(37,546)	(26,473)
Deferred taxes:		
Relating to origination and reversal of temporary differences	(2,348)	(1,346)
Income tax expense	**(39,894)**	**(27,819)**

The current income tax charges and prepaid taxes are detailed below:

	31 December 2014	31 December 2013
Current income tax charge	37,546	26,473
Advance taxes	(30,513)	(26,156)
Current tax liability	**7,033**	**317**

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

As at 31 December 2014 and 2013, deferred tax assets and liabilities are attributable to the following items:

	31 December 2014		31 December 2013	
	Deferred tax Assets/ (Liabilities)		Deferred tax Assets/ (Liabilities)	
	Asset	Liability	Asset	Liability
Valuation difference of derivative financial instruments	-	(9,965)	-	(6,250)
Differences in the measurement of the debt securities	-	(7,270)	-	(2,904)
Personnel bonuses	1,999	-	2,368	-
Reserve for employee severance indemnity and vacation	2,503	-	2,324	-
Valuation of AFS securities	3,935	-	12,410	-
Sloan loss provisions	7,967	-	4,525	-
Other	2,748	(578)	1,838	(446)
Total deferred tax assets/(liabilities)	**19,152**	**(17,813)**	**23,465**	**(9,600)**
Offsetting	(17,813)	17,813	(9,600)	9,600
Deferred tax assets/(liabilities)	**1,339**	**-**	**13,865**	**-**

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

18. Income taxes *(continued)*

	31 December 2014	31 December 2013
Deferred tax asset / (liability) at 1 January	**13,865**	**(33,882)**
Deferred tax recognised in income statement	(2,348)	(1,346)
Deferred tax recognised in equity	(8,475)	50,008
Foreign currency difference	(137)	717
Prior period corporate tax that was paid in the current period	(1,566)	(1,632)
Deferred tax asset / (liability) at 31 December	**1,339**	**13,865**

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis based on the legally enforceable right to set off the recognised amounts such as offsetting current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	31 December 2014	31 December 2013
Deferred tax assets	9,070	13,865
Deferred tax liabilities	(7,731)	-
Total	**1,339**	**13,865**

A reconciliation of income tax expense applicable to profit from operating activities before income taxes at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2014 and 2013 were as follows:

	2014	2013
Net profit from ordinary activities before income taxes and non-controlling interest	**195,349**	**137,930**
Taxes on income per statutory tax rate	39,070	27,586
Disallowable expenses	1,413	1,191
Effect of income not subject to tax	(589)	(958)
Income tax expense	**39,894**	**27,819**

For the year ended 31 December 2014, the effective tax rate is 20.4% (2013:20.2%).

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

19. Capital and reserves

Share capital

	31 December 2014	31 December 2013
Number of common shares, TL 0.01 (in full TL), par value Authorised, issued and outstanding 60,000 millions	600,000	600,000

As at 31 December 2014 and 2013, the authorised nominal share capital of the Bank amounted to TL 600,000.

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

	31 December 2014		31 December 2013	
	Amount	**%**	**Amount**	**%**
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,867	69.98	419,823	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,238	2.70	16,282	2.70
Nominal value	**600,000**	**100.00**	**600,000**	**100.00**
Restatement effect per *IAS 29*	2,619		2,619	
Total	**602,619**		**602,619**	

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Fair value reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

In 2014, the Bank has reclassified the securities from available-for-sale financial assets to held-to-maturity investment securities in accordance with the decision of Board of Directors. The loss of TL 15,320 net of deferred taxes at the transfer date that has been recognised directly in equity is amortised under profit or loss over the remaining life of the transferred securities using the effective interest method.

As at 31 December 2014, such gains/(losses) recognised under equity, after deduction of related tax effect, amounted to TL (15,634) (31 December 2013: TL (49,404)).

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

19. Capital and reserves *(continued)*

Other reserves and legal reserves

Other reserves consist of the legal reserves which are amounted to TL 47,880 and gain on sales of assets which are amounted to TL 60 (31 December 2013: TL 42,936 and TL 60; respectively).

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

Non-controlling interests

As at 31 December 2014, net non-controlling interests amount to TL 2,440 (31 December 2013: TL 2,140).

20. Related parties

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 and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ which owns 69.98% (31 December 2013: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial statements, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families. In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

Outstanding balances

	31 December 2014	31 December 2013
Cash loans	4,856	18,742
Non-cash loans	37,026	95,382
Deposits taken	61,846	105,496

Transactions

	2014	2013
Interest income	2,188	1,369
Interest expense	2,292	1,005
Other operating income	6	834

Directors' remuneration

For the year ended 31 December 2014, the key management and the members of the Board of Directors received remuneration and fees amounting to TL 14,010 (31 December 2013: TL 13,343).

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

21. Interest income / expenses

	2014	2013
Interest on loans and receivables	794,190	604,797
Interest on marketable securities	99,242	67,022
Financial assets at FVTPL	*14,169*	*15,121*
Available for sale	*46,196*	*42,688*
Held to maturity	*38,877*	*9,213*
Interest on Loans and advances to banks and other financial institutions	1,788	472
Interest on other money market placements	10,736	10,662
Other interest income	1,166	5,007
Total interest income	**907,122**	**687,960**

	2014	2013
Interest on deposits	432,068	268,286
Interest on funds borrowed	24,279	14,728
Interest on other money market deposits	21,578	13,885
Other interest expenses	956	406
Total interest expenses	**478,881**	**297,305**

22. Fee and commission income / expenses

	2014	2013
From non cash loans	16,378	11,855
Other	77,175	60,337
From cash loans	*12,468*	*14,832*
From individual loan application	*11*	*140*
From fund commissions	*724*	*1,064*
Other	*63,972*	*44,301*
Fee and commission income	**93,553**	**72,192**

	2014	2013
ATM commissions	10,624	1,378
Credit card commissions	845	8,051
Non-cash loan commissions	49	48
Other	5,974	4,634
Fee and commission expenses	**17,492**	**14,111**

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

23. Salaries and employee benefits

	2014	**2013**
Staff costs:		
Wages and salaries	138,952	132,117
Cost of defined contribution plan (employer's share of social security premiums)	19,938	19,407
Other fringe benefits	22,943	29,981
Provision for employee termination benefits and unused vacation accruals	7,145	3,344
Total	**188,978**	**184,849**

The average number of employees during the year is:

	2014	**2013**
The Bank	1,761	2,111
Subsidiaries	114	108
Total	**1,875**	**2,219**

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

24. Other expenses

	2014	2013
Operating lease charges	22,516	20,001
Communication expenses	7,486	7,034
Transportation expenses	5,929	4,845
Saving Deposit Insurance Fund Premium	4,818	3,943
Advertising expenses	4,500	817
Maintenance expenses	3,982	2,059
BRSA participation fee	3,375	867
Expertise expenses	3,261	2,304
Hosting cost	2,620	2,970
Cleaning service expenses	2,179	3,483
Energy costs	1,974	3,162
Other provisions	1,363	1,160
Chartered accountants	944	525
POS service expenses	795	513
Office supplies	405	1,619
Credit card service expenses	386	1,089
Other	14,450	12,512
Total	**80,983**	**68,903**

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

25. Commitments and contingencies

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

	31 December 2014	31 December 2013
Letters of guarantee	1,784,410	1,438,485
Letters of credit	322,491	250,204
Acceptance credits	8,996	5,890
Other guarantees	221,143	123,838
Total non-cash loans	**2,337,040**	**1,818,417**
Credit card limit commitments	210,514	275,547
Other commitments	339,451	453,797
Total	**2,887,005**	**2,547,761**

Litigations

A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of US 14,750,000 (full) plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management does not consider that there would be any probable loss.

USD 14,750,000 (full) that was transferred to the account of a customer of the Bank by Citibank N.A. was paid to the related company by the Bank. Citibank N.A. claimed this transfer back, however since the money was paid to the related company and could not be returned, a lawsuit was filed against the Bank. The insurance companies, those paid USD 11,500,000 (full) of the total amount as the indemnity, were accepted to the case by the court as being intervening party. For the remaining part of the amount (USD 3,250,000) (full) was prosecuted by Citibank N.A. at the same lawsuit. As of the reporting date, the court has rejected the demand of USD 3,250,000 (full) with Citibank N.A. and USD 11,500,000 (full) with the insurance companies, which are involved in the dispute as a result of the hearing on 20 December 2011. The issue has moved to Supreme Court by the complainants and Supreme Court decided in countenance of the Bank at 12 December 2013 with the decision numbered 2013/22710. The court decision has been finally approved on 24 November 2014.

26. Financial risk management

(a) Introduction and overview

This note presents information about the Group's exposure to each of the below risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the auditing committee. Consequently, the Risk Management Department, which carries out the risk management activities and works independently from executive activities, report directly to the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel III, are carried out.

Auditing Committee: The Auditing Committee consists of two members of the Board of Directors who do not have any executive functions. The Auditing Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

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

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

26. Financial risk management *(continued)*

(b) Credit risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth covering the counterparty risks arising from not only from future or option contracts but also credit risks originating from the transactions in Banking Law.

Exposure to credit risk

	Loans and advances to customers		Other assets	
	2014	**2013**	**2014**	**2013**
Impaired	248,212	176,747	833	1,113
Individual allowance for impairment	(132,598)	(115,014)	(833)	(1,113)
Carrying amount	**115,614**	**61,733**	**-**	**-**
Past due but not impaired	291,331	237,511		-
Carrying amount	**291,331**	**237,511**		
Neither past due nor impaired	7,061,652	5,940,455		-
Loans with renegotiated terms	25,058	24,153	-	-
Carrying amount	**7,086,710**	**5,964,608**		-
Collective allowance for impairment	(71,888)	(66,161)	-	-
Total carrying amount	**7,421,767**	**6,197,691**	**-**	**-**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3 to 5 in the Group's internal credit risk grading system.

Past due but not impaired loans

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

Loans with renegotiated terms

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

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and the completion of the legal procedure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 or 2013.

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

Cash loans	**31 December 2014**	**31 December 2013**
Secured loans:		
Secured by cash collateral	141,590	71,415
Secured by mortgages	1,166,291	921,269
Secured by government institutions or government securities	-	-
Guarantees issued by financial institutions	24,044	26,436
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	4,076,329	3,288,709
Unsecured loans	1,969,787	1,894,290
Total performing loans and receivables	**7,378,041**	**6,202,119**

Non-cash loans	**31 December 2014**	**31 December 2013**
Secured loans:		
Secured by mortgages	40,573	36,337
Guarantees issued by financial institutions	55,970	59,157
Secured by cash collateral	4	311
Secured by government institutions or government securities	234	359
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,426,243	1,105,157
Unsecured loans	814,016	617,096
Total non-cash loans	**2,337,040**	**1,818,417**

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

An estimate of the fair value of collaterals held against non-performing loans and receivables is as follows:

	31 December 2014	31 December 2013
Mortgages	108,685	25,375
Pledge on automobile	4,260	2,669
Corporate and personal guarantees	40,022	18,935
Total	**152,967**	**46,979**

Sectoral and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans is shown below:

	31 December 2014	31 December 2013
Metal and metal products	56,161	36,743
Consumer loans	34,070	39,442
Construction	31,514	15,198
Service sector	21,300	4,845
Food	17,884	15,441
Durable consumption	9,612	4,350
Agriculture and stockbreeding	9,607	4,834
Textile	8,471	3,627
Others	59,593	53,380
Total non-performing loans and receivables	**248,212**	**177,860**

	31 December 2014	31 December 2013
Turkey	208,057	177,721
AB Country	40,022	139
United States of America	133	--
Total non-performing loans and receivables	**248,212**	**177,860**

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectoral break down of cash and non-cash loans

	31 December 2014				31 December 2013			
	Cash	Cash (%)	Non cash	Non cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Agriculture	**576,666**	**7.77**	**23,978**	**1.02**	**381,590**	**6.16**	**28,786**	**1.58**
Farming and stockbreeding	555,239	7.48	*19,821*	*0.85*	*357,928*	*5.78*	*24,922*	*1.37*
Forestry	10,345	0.14	*3,817*	*0.16*	*18,271*	*0.29*	*3,807*	*0.21*
Fishing	11,082	0.15	*340*	*0.01*	*5,391*	*0.09*	*57*	*0.00*
Industry	**2,264,093**	**30.51**	**747,176**	**31.96**	**2,100,454**	**33.89**	**639,473**	**35.17**
Mining and quarrying	119,380	1.61	*10,137*	*0.43*	*54,046*	*0.87*	*16,471*	*0.91*
Manufacturing	2,121,929	28.59	*732,527*	*31.34*	*2,017,661*	*32.56*	*617,883*	*33.98*
Electricity, gas, water	22,784	0.31	*4,512*	*0.19*	*28,747*	*0.46*	*5,119*	*0.28*
Construction	**1,055,485**	**14.22**	**562,809**	**24.08**	**525,322**	**8.48**	**340,417**	**18.72**
Services	**2,907,570**	**39.17**	**1,000,504**	**42.82**	**2,387,022**	**38.52**	**802,126**	**44.10**
Wholesale and retail trade	1,564,926	21.09	*389,827*	*16.68*	*1,222,346*	*19.73*	*276,850*	*15.22*
Hotel and restaurant services	90,166	1.21	*14,527*	*0.62*	*43,585*	*0.70*	*11,703*	*0.64*
Transportation and communication	311,311	4.19	*66,116*	*2.83*	*158,804*	*2.56*	*37,527*	*2.06*
Financial institution	602,627	8.12	*423,050*	*18.10*	*722,856*	*11.67*	*368,210*	*20.25*
Real estate and rent services	26,011	0.35	*887*	*0.04*	*22,560*	*0.36*	*257*	*0.01*
Professional services	115,275	1.55	*58,549*	*2.51*	*118,461*	*1.91*	*65,575*	*3.61*
Educational services	12,524	0.17	*3,483*	*0.15*	*8,379*	*0.14*	*3,531*	*0.19*
Health and social services	184,730	2.49	*44,065*	*1.89*	*90,031*	*1.45*	*38,473*	*2.12*
Consumer loans	**409,550**	**5.52**	**-**	**-**	**553,760**	**8.93**	**-**	**-**
Credit card	**86,647**	**1.17**	**-**	**-**	**128,497**	**2.07**	**-**	**-**
Others	**121,756**	**1.64**	**2,573**	**0.12**	**121,046**	**1.95**	**7,615**	**0.43**
Total	**7,421,767**	**100.00**	**2,337,040**	**100.00**	**6,197,691**	**100.00**	**1,818,417**	**100.00**

26. Financial risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable.

Management of liquidity risk

The Bank management is very conservative on maintaining an acceptable level of immediately available funds on hand both in TL as well as in foreign currencies. The level that the Bank management feels comfortable is around 10% of the assets size. The Treasury department is responsible for keeping either cash on hand or liquid assets that could be exchanged into cash immediately by making use of instruments in financial markets in consideration of cash outflows within next two weeks.

To mitigate the liquidity risk, the Group diversifies funding sources and assets are managed with liquidity in mind, maintaining balance of cash and cash equivalents.

Within the risk management framework, the Treasury Department manages the liquidity position of the Bank and the liquidity ratios are monitored closely by the top management of the Bank. In order to manage the liquidity risk, Treasury Department receives information from other business departments and regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department maintains a portfolio of short-term liquid assets, short-term loans and placements to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury Department prepared daily reports cover the liquidity position of both the Bank and its subsidiaries. All liquidity policies and procedures are subject to review and approval of ALCO.

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by the BRSA. In November 2006, the BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007.

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Residual contractual maturities of monetary liabilities

31 December 2014	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	404,240	405,143	28,440	39,238	221,196	116,269	-	-
Deposits from customers	7,248,196	7,681,533	875,292	276,537	4,350,125	1,221,953	546,325	411,301
Obligations under repurchase agreements	998,480	999,377	-	81,822	443,886	442,771	30,898	-
Funds borrowed	746,877	753,398	-	187,361	153,452	412,585	-	-
Total	**9,397,793**	**9,839,451**	**903,732**	**584,958**	**5,168,659**	**2,193,578**	**577,223**	**411,301**

31 December 2013	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	323,528	335,357	44,150	72,569	127,173	91,465	-	-
Deposits from customers	5,604,217	6,084,596	804,046	224,750	3,577,400	528,139	547,670	402,591
Obligations under repurchase agreements	811,840	812,973	-	65,238	104,605	635,230	7,900	-
Funds borrowed	668,432	674,968	-	91,498	14,672	506,666	62,132	-
Total	**7,408,017**	**7,907,894**	**848,196**	**454,055**	**3,823,850**	**1,761,500**	**617,702**	**402,591**

The previous table shows the undiscounted cash flows on the Group's monetary liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis.

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The table below analyses contractual maturities of derivative transactions:

	31 December 2014								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	2,370	-	1,506,271	1,343,494	47,697	54,363	60,717	-	-
Forward sale contract	-	13,434	1,456,598	1,292,506	48,272	56,642	59,178	-	-
Currency swap purchase	48,614	-	3,059,898	2,375,436	294,019	-	203,931	186,512	-
Currency swap sale	-	25,551	3,086,614	2,377,580	292,583	-	211,996	204,455	-
Put option purchase	130	-	349,354	218,664	130,690	-	-	-	-
Put option sale	-	157	349,351	-	216,501	132,850	-	-	-
Total	**51,114**	**39,142**	**9,808,086**	**7,607,680**	**1,029,762**	**243,855**	**535,822**	**390,967**	**-**

	31 December 2013								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	5,350	3,340	909,870	876,429	19,509	13,644	288	-	-
Forward sale contract	-	-	876,256	842,897	19,477	13,595	287	-	-
Currency swap purchase	70,320	29,896	2,870,692	2,129,231	45,483	161,392	459,226	75,360	-
Currency swap sale	-	-	2,864,760	2,132,844	43,923	158,572	455,932	73,489	-
Put option purchase	-	384	333,186	169,691	108,919	11,221	43,355	-	-
Put option sale	-	-	337,239	173,360	108,919	11,221	43,739	-	-
Total	**75,670**	**33,620**	**8,192,003**	**6,324,452**	**346,230**	**369,645**	**1,002,827**	**148,849**	**-**

Non-cash loans

31 December 2014	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**	**Total**
Non-cash loans	-	1,273,507	220,846	416,073	190,620	235,994	**2,337,040**

31 December 2013	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**	**Total**
Non-cash loans	-	966,127	82,890	374,475	200,932	193,993	**1,818,417**

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

26. Financial risk management *(continued)*

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk – trading portfolios

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period. The VaR model used is based mainly on Monte Carlo simulation. Taking account of market data from the previous 252 days, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios and stress tests for market price movements. The VaR model used is based on and Monte Carlo simulation with using with Nelson Siegel method for yield curve and GARCH method for volatility. The VaR analysis of the Bank are not reported outside and used only by the top management.

The consolidated value at market risk as of 31 December 2014 calculated as per the statutory consolidated financial statements prepared for the BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 based on the Basel II requirements effective from 1 July 2012 is as follows:

	31 December 2014			31 December 2013		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rates risk	39,790	86,380	16,608	49,986	63,608	41,148
Common share risk	1,679	2,044	1122	1,016	1,427	34
Currency risk	5,867	11,368	2,028	7,527	14,207	4,336
Option risk	6	31	1	-	-	-
Counterparty credit risk	5,353	13,692	1,528	3,476	4,952	2,944
Total value at risk (12.5 times)	**658,688**	**1,334,988**	**288,963**	**775,063**	**960,050**	**610,200**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position is as follows:

31 December 2014	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	129,240	-	-	-	-	1,079,231	**1,208,471**
Loans and advances to banks and other financial institutions	490,230	4,195	17,529	2,773	-	87,533	**602,260**
Receivables from reverse repurchase transactions	250,077	-	-	-	-	-	**250,077**
Trading assets (including derivative assets)	144,250	7,124	8,183	15,059	33,059	12,057	**219,732**
Available for sale	-	97	-	68,247	77,259	-	**145,603**
Loans and receivables	2,928,140	728,207	1,590,649	1,857,248	278,622	38,901	**7,421,767**
Investment securities	-	-	2,973	149,517	864,878	-	**1,017,368**
Other assets	4,518	63	-	-	65	416,386	**421,032**
Total assets	**3,946,455**	**739,686**	**1,619,334**	**2,092,844**	**1,253,883**	**1,634,108**	**11,286,310**
Deposits from banks	258,934	102,075	14,791	-	-	28,440	**404,240**
Deposits from customers	4,014,333	1,935,803	486,236	258,030	-	553,794	**7,248,196**
Obligations under repurchase agreements and interbank money market borrowings	484,068	483,604	-	30,808	-	-	**998,480**
Funds borrowed	185,776	152,087	409,014	-	-	-	**746,877**
Other liabilities, provisions and equity	51,860	48	26	-	-	1,836,583	**1,888,517**
Total liabilities	**4,994,971**	**2,673,617**	**910,067**	**288,838**	**-**	**2,418,817**	**11,286,310**
Net	**(1,048,516)**	**(1,933,931)**	**709,267**	**1,804,006**	**1,253,883**	**(784,709)**	**-**

31 December 2013	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	-	-	-	-	-	859,118	**859,118**
Loans and advances to banks and other financial institutions	116,364	-	6,200	-	-	218,272	**340,836**
Receivables from reverse repurchase transactions	150,032	-	-	-	-	-	**150,032**
Trading assets (including derivative assets)	136,567	10,408	6,602	3,814	31,390	26,644	**215,425**
Available for sale	-	32,183	3,986	5,090	714,682	-	**755,941**
Loans and receivables	2,807,424	647,893	1,057,695	1,469,469	210,819	4,391	**6,197,691**
Investment securities	33,493	13,464	28,709	87,280	54,716	-	**217,662**
Other assets	-	62	-	-	244	281,313	**281,619**
Total assets	**3,243,880**	**704,010**	**1,103,192**	**1,565,653**	**1,011,851**	**1,389,738**	**9,018,324**
Deposits from banks	159,779	112,582	7,017	-	-	44,150	**323,528**
Deposits from customers	3,292,931	1,319,298	184,755	391,794	-	415,439	**5,604,217**
Obligations under repurchase agreements and interbank money market borrowings	386,839	254,702	152,083	18,216	-	-	**811,840**
Funds borrowed	123,136	106,659	393,017	45,620	-	-	**668,432**
Other liabilities, provisions and equity	24,418	520	5,071	-	-	1,580,298	**1,610,307**
Total liabilities	**3,987,103**	**1,793,761**	**741,943**	**455,630**	**-**	**2,039,887**	**9,018,324**
Net	**(743,223)**	**(1,089,751)**	**361,249**	**1,110,023**	**1,011,851**	**(650,149)**	**-**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated)

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

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

31 December 2014	Euro %	USD %	JPY %	TL %
Cash and balances with Central Bank	-	-	-	-
Loans and receivables	0.34	0.52	-	11.11
Financial assets at fair value through profit or loss	9.38	2.89	-	9.02
Money market placements	-	-	-	11.23
Available for sale	3.01	3.98	-	-
Loans and advances to customers	3.60	3.46	5.48	12.99
Investment securities	1.00	5.75	-	-
Deposits from banks	1.17	1.39	-	10.02
Deposits from customers	1.98	2.36	-	10.22
Obligations under repurchase agreements	0.40	0.88	-	8.56
Funds borrowed	1.67	2.27	-	7.03

31 December 2013	Euro %	USD %	JPY %	TL %
Cash and balances with Central Bank	-	-	-	-
Loans and receivables	0.41	0.32	-	5.40
Financial assets at fair value through profit or loss	11.17	0.85	-	8.04
Money market placements	-	-	-	7.74
Available for sale	1.00	5.68	-	-
Loans and advances to customers	3.88	4.31	4.60	13.83
Investment securities	1.00	0.73	-	15.01
Deposits from banks	1.71	1.09	-	6.32
Deposits from customers	2.95	3.01	-	9.35
Obligations under repurchase agreements	0.00	1.04	-	4.47
Funds borrowed	1.73	1.49	-	7.14

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate sensitivity of the trading and non-trading portfolios

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviours. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk resulted from banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published in the Official Gazette no. 28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

As of 31 December 2014, the economic value differences resulted from interest rate instabilities calculated on a bank-only basis for the banking book according to the relevant legislation as per the standard shock method are as follows;

Type of currency	Shocks applied (+/- basis points)	Gains/losses	Gains/equity-Losses/equity
TL	(+) 500 bps	(96,311)	(7.57)%
TL	(-) 400 bps	90,445	7.11%
USD	(+) 200 bps	(175,216)	(13.78)%
USD	(-) 200 bps	237,803	18.70%
EUR	(+) 200 bps	480	0.04%
EUR	(-) 200 bps	(413)	(0.03)%
Total (of negative shocks)		**327,835**	**25.78%**
Total (of positive shocks)		**(271,047)**	**(21.31)%**

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or else smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in profit or loss except for foreign exchange gain/loss arising from the conversion of the net investments in subsidiaries in foreign countries into TL.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2014 and 2013, on the basis of the Group's assets and liabilities at carrying amounts, categorised by currency, is shown in the following table.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2014	**USD**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and balances with the Central Bank	744,132	72,524	235,281	1,051,937
Loans and advances to banks and other financial institutions	84,540	349,397	52,152	486,089
Receivables from reverse repo transactions	-	-	-	-
Available for sale	95,966	49,637	-	145,603
Financial assets at fair value through profit or loss	15,054	33,062	-	48,116
Investment securities	885,840	131,528	-	1,017,368
Loans and receivables	1,597,929	690,366	28,725	2,317,020
Other assets	78,337	36,454	803	115,594
Total assets	**3,501,798**	**1,362,968**	**316,961**	**5,181,727**
Liabilities:				
Deposits from other banks	149,635	84,464	86,247	320,346
Deposits from customers	2,070,153	1,191,306	38,149	3,299,608
Other money market deposits	853,902	85,025	-	938,927
Funds borrowed	379,917	199,676	-	579,593
Other liabilities and provisions	81,870	8,966	81	90,917
Total liabilities	**3,535,477**	**1,569,437**	**124,477**	**5,229,391**
Net position on the consolidated statement of financial position	**(33,679)**	**(206,469)**	**192,484**	**(47,664)**
Off-balance sheet position:				
Net notional amount of derivatives	41,445	221,326	(202,536)	60,235
Net position	**7,766**	**14,857**	**(10,052)**	**12,571**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2013	USD	Euro	Other currencies	Total
Assets:				
Cash and balances with the Central Bank	191,779	361,386	83,739	636,904
Loans and advances to banks and other financial institutions	225,701	95,596	14,272	335,569
Receivables from reverse repo transactions	-	-	-	-
Available for sale	34,318	717,568	-	751,886
Financial assets at fair value through profit or loss	43,009	10,808	-	53,817
Investment securities	161,992	44,547	-	206,539
Loans and receivables	547,925	1,082,330	62,848	1,693,103
Other assets	7,804	50,597	416	58,817
Total assets	**1,212,528**	**2,362,832**	**161,275**	**3,736,635**
Liabilities:				
Deposits from other banks	150,950	114,243	18,979	284,172
Deposits from customers	1,162,092	977,228	38,079	2,177,399
Other money market deposits	89,720	656,901	-	746,621
Funds borrowed	307,792	234,756	-	542,548
Other liabilities and provisions	7,969	52,502	103	60,574
Total liabilities	**1,718,523**	**2,035,630**	**57,161**	**3,811,314**
Net position on the consolidated statement of financial position	**(505,995)**	**327,202**	**104,114**	**(74,679)**
Off-balance sheet position:				
Net notional amount of derivatives	356,738	(264,431)	(72,260)	20,047
Net position	**(149,257)**	**62,771**	**31,854**	**(54,632)**

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to currency risk sensitivity analysis

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

	31 December 2014		**31 December 2013**	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
USD	1,685	767	12,365	6,277
EUR	2,522	1,486	(14,838)	(14,926)
Other currencies	(968)	(968)	3,185	3,185
Total, net	**3,239**	**1,285**	**712**	**(5,464)**

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

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, during financial crisis, judgment is necessary requirement to interpret market data to determine the estimated fair value.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and security investments. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, deposits from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair values of held to maturity investment securities and loans and receivables are TL 1,093,113 and TL 7,235,942 (31 December 2013: TL 236,336 and TL 6,185,455), respectively, whereas the carrying amounts are TL 1,017,368 and TL 7,421,767 (31 December 2013: TL 217,662 and TL 6,197,691), respectively, in the accompanying consolidated statement of financial position as at 31 December 2014 and 2013. Fair values of held to maturity investments are determined as Level 1 and fair values of loans and receivables are determined as Level 2.

Fair values of held-to-maturity investments are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair value of long-term fixed interest rate loans are calculated by discounting cash flows with current market interest rates. For the loans with floating interest rate and short term loans with fixed interest rate, carrying value also represents fair value.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Classification of fair value measurement

IFRS 7 – Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Bank. This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	122,572	-	-	122,572
Equity securities	12,057	-	-	12,057
Derivative financial assets held for trading		85,103		85,103
Financial assets available for sale				
Debt instruments	145,603	-	-	145,603
Total financial assets	280,232	85,103	-	365,335
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading	-	51,934	-	51,934
Total financial liabilities	**-**	**51,934**	**-**	**51,934**

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	128,227	-	-	128,227
Equity securities	11,528	-	-	11,528
Derivative financial assets held for trading	-	75,670	-	75,670
Financial assets available for sale				
Debt instruments	755,941	-	-	755,941
Total financial assets	**895,696**	**75,670**	**-**	**971,366**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading	-	33,620	-	33,620
Total financial liabilities	**-**	**33,620**	**-**	**33,620**

26. Financial risk management *(continued)*

(e) Operational risk

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

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

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

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2007, using gross profit of the last three years 2011, 2012 and 2013. Value at operational risk is amounting to 953,386 (31 December 2013: TL 841,338).

(f) Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the period.

26. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions. In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

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

26. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis as of 31 December 2014 is as follows:

	31 December 2014	31 December 2013
Tier 1 capital	1,344,028	1,203,260
Tier 2 capital	58,929	12,329
Deductions from capital	(1,896)	-
Total regulatory capital	**1,401,061**	**1,215,589**
Risk-weighted assets	8,523,625	6,584,503
Value at market risk	312,688	960,050
Operational risk	841,338	804,475
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.48%	14.56%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	13.89%	14.41%

27. Events after reporting period

None.