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TÜRKİYE SINAİ KALKINMA BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

23 February 2015

This report contains 1 page of independent auditors' report on consolidated financial statement and 93 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye Sinai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 29
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
Internet www.kpmg.com.tr

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Introduction

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

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

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

Opinion

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

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

Orhan Akova
Partner

23 February 2015
Istanbul, Turkey

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

ASSETS	**Notes**	**31 December 2014**	**31 December 2013**
Cash and cash equivalents	5	14	107
Balances with central bank	6	34,612	78,155
Reserve deposits at central bank	6	473,168	266,778
Loans and advances to banks	7	503,981	421,304
Interbank money market placements	5	104,913	50
Funds lent under repurchase agreements	5	293	-
Financial assets at fair value through profit or loss		95,417	60,248
- Trading assets	*8*	*20,543*	*19,561*
- Derivative assets	*32*	*74,874*	*40,687*
Loans and advances to customers	9	10,852,263	9,060,422
Investment securities	10	3,520,426	2,976,196
- Available for sale investment securities		*3,520,426*	*2,976,196*
Investments in equity-accounted investees	11	261,745	234,988
Goodwill	12	383	383
Property and equipment	13	26,619	24,567
Investment property	14	224,090	222,295
Intangible assets	15	1,169	1,245
Deferred tax assets	21	8,940	14,977
Other assets	16	93,259	80,746
Total assets		**16,201,292**	**13,442,461**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

LIABILITIES	**Notes**	**31 December 2014**	**31 December 2013**
Obligations under repurchase agreements	17	2,162,494	1,604,891
Derivative liabilities	31	63,576	57,857
Funds borrowed	18	10,151,582	9,125,037
Debts securities issued	19	813,824	-
Payables to stock exchange money market	24	110,219	251,313
Current account of loan customers	34	39,081	5,954
Taxes and dues payable		5,332	4,522
Employee benefits	22	17,377	15,272
Corporate tax liability	21	32,390	18,137
Provisions		61	2,183
Other liabilities	20	88,689	83,165
Subordinated loan	23	116,065	106,759
Total liabilities		**13,600,690**	**11,275,090**
EQUITY			
Share capital			
Nominal paid in capital	25	1,500,000	1,300,000
Inflation adjustment to capital	25	13,563	13,563
Total capital		1,513,563	1,313,563
Share premium		413	388
Legal reserves		176,231	158,911
Fair value reserve		118,002	4,040
Retained earnings		724,940	614,984
Total equity attributable to equity holders of the Bank		**2,533,149**	**2,091,886**
Non-controlling interests	25	67,453	75,485
Total equity		**2,600,602**	**2,167,371**
Total liabilities and equity		**16,201,292**	**13,442,461**
Commitments and contingencies	31	**14,361,130**	**9,931,690**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
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	1 January – 31 December 2014	1 January – 31 December 2013
Interest income			
Interest income on loans and advances to customers		505,160	393,569
Interest on money market placements		14,320	13,997
Interest income on securities		283,930	229,151
Interest income on loans and advances to banks		16,219	20,236
Interest income on reserve deposit at central bank		53	-
Interest income on finance leases		65	306
Other interest income		171	231
Total interest income	29	**819,918**	**657,490**
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(160,230)	(79,638)
Interest expense on funds borrowed and subordinated loan		(122,986)	(96,217)
Interest expense on debt securities issued		(8,025)	-
Other interest expenses		(54)	(47)
Total interest expense	29	**(291,295)**	**(175,902)**
Net interest income		**528,623**	**481,588**
Fee and commission income		33,631	32,445
Fee and commission expense		(4,131)	(4,578)
Net fee and commission income		**29,500**	**27,867**
Securities trading income / (losses), net		(714)	4,391
Derivative trading income / (losses), net		(46,889)	(46,359)
Foreign exchange gains / (losses), net		88,841	17,233
Net trading income	29	**41,238**	**(24,735)**
Net impairment loss on financial assets		(4,776)	(5,851)
Operating income after impairment losses		**594,585**	**478,869**
Other operating income	26	23,912	22,781
Other operating expenses	28	(160,590)	(140,606)
Dividend income	27	9,734	15,715
Share of profit of equity-accounted investees	11	27,136	31,975
Profit before income tax		**494,777**	**408,734**
Income tax expense	21	(98,310)	(74,543)
Profit for the year		**396,467**	**334,191**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
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	1 January – 31 December 2014	1 January – 31 December 2013
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurement of employee termination benefits		(696)	488
Related tax		133	(95)
		(563)	**393**
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		145,274	(159,185)
Net change in fair value of available-for-sale financial assets transferred to profit or loss		(136)	6,423
Equity-accounted investees - share of OCI		(2,969)	(7,032)
Related tax		(28,070)	30,080
Other comprehensive income for the year, net of tax		**113,536**	**(129,321)**
Total comprehensive income for the year		**510,003**	**204,870**
Profit attributable to:			
Equity holders of the Bank		395,902	342,930
Non-controlling interests	25	565	(8,739)
Profit for the year		**396,467**	**334,191**
Total comprehensive income attributable to:			
Equity holders of the Bank		509,301	213,609
Non-controlling interests	25	702	(8,739)
Total comprehensive income for the year		**510,003**	**204,870**
Earnings per share			
Basic and diluted earnings per share	35	0.2643	0.2228

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ

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	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2013		**1,100,000**	**13,563**	**388**	**125,628**	**133,754**	**572,240**	**1,945,573**	**84,227**	**2,029,800**
Total comprehensive income for the year										
Profit		-	-	-	-	-	342,930	342,930	(8,739)	334,191
Other comprehensive income										
Remeasurement of employee termination benefits		-	-	-	-	-	488	488	-	488
Net change in fair value of available for sale financial assets		-	-	-	-	(159,185)	-	(159,185)	-	(159,185)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	6,423	-	6,423	-	6,423
Equity-accounted investees - share of OCI		-	-	-	-	(7,032)	-	(7,032)	(13)	(7,045)
Tax on other comprehensive income		-	-	-	-	30,080	(95)	29,985	-	29,985
Total other comprehensive income		**-**	**-**	**-**	**-**	**(129,714)**	**393**	**(129,321)**	**(13)**	**(129,334)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(129,714)**	**343,323**	**213,609**	**(8,752)**	**204,857**
Transactions with owners, recognized directly in equity										
Capital increase	25	200,000	-	-	-	-	(200,000)	-	-	-
Dividend distribution		-	-	-	-	-	(67,296)	(67,296)	-	(67,296)
Transfer to legal reserves		-	-	-	33,392	-	(33,392)	-	-	-
Other		-	-	-	(109)	-	109	-	10	10
Total contributions by and distributions to owners		**200,000**	**-**	**-**	**33,283**	**-**	**(300,579)**	**(67,296)**	**10**	**(67,286)**
Balance at 31 December 2013	**25**	**1,300,000**	**13,563**	**388**	**158,911**	**4,040**	**614,984**	**2,091,886**	**75,485**	**2,167,371**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ

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	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total Equity
Balance at 1 January 2014		**1,300,000**	**13,563**	**388**	**158,911**	**4,040**	**614,984**	**2,091,886**	**75,485**	**2,167,371**
Total comprehensive income for the year										
Profit		-	-	-	-	-	395,902	395,902	565	396,467
Other comprehensive income										
Remeasurement of employee termination benefits		-	-	-	-	-	(696)	(696)	-	(696)
Net change in fair value of available for sale financial assets		-	-	-	-	145,274	-	145,274	-	145,274
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	(136)	-	(136)	-	(136)
Equity-accounted investees - share of OCI		-	-	-	-	(3,106)	-	(3,106)	137	(2,969)
Tax on other comprehensive income		-	-	-	-	(28,070)	133	(27,937)	-	(27,937)
Total other comprehensive income		**-**	**-**	**-**	**-**	**113,962**	**(563)**	**113,399**	**137**	**113,536**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**113,962**	**395,339**	**509,301**	**702**	**510,003**
Transactions with owners, recognized directly in equity										
Capital increase	25	200,000	-	-	-	-	(200,000)	-	-	-
Dividend distribution		-	-	-	-	-	(72,581)	(72,581)	-	(72,581)
Transfer to legal reserves		-	-	-	17,319	-	(17,319)	-	-	-
Acquisition of non-controlling interests without a change in control		-	-	25	1	-	4,517	4,543	(8,734)	(4,191)
Total contributions by and distributions to owners		**200,000**	**-**	**25**	**17,320**	**-**	**(285,383)**	**(68,038)**	**(8,734)**	**(76,772)**
Balance at 31 December 2014	**25**	**1,500,000**	**13,563**	**413**	**176,231**	**118,002**	**724,940**	**2,533,149**	**67,453**	**2,600,602**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

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

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

	Notes	31 December 2014	31 December 2013
Cash flows from operating activities:			
Profit for the period		396,467	334,191
Adjustments for:			
Net interest income		(528,623)	(481,588)
Depreciation of property and equipment	13	2,743	2,603
Amortisation of intangible assets	15	582	401
Impairment of investment property		11,891	31,351
Net impairment losses on loans and advances	9	2,628	(1,272)
Reserve for employee severance indemnity	22	2,452	602
Provision / reversal for unused vacations	22	(13)	337
Provision for bonus payments	22	7,839	6,596
Share of profit of equity-accounted investees		(27,136)	(31,975)
Income tax expense	21	98,310	74,543
Gain / (loss) on sale of property and equipment		3,392	(33)
Unrealized gains		146,639	99,142
Non-controlling interests	25	(565)	8,739
Operating profit before changes in operating assets / liabilities		**116,606**	**43,637**
Changes in operating assets and liabilities:			
Change in loans and leasing receivables		(1,843,473)	(1,443,510)
Change in other assets		19,858	(41,852)
Change in other creditors, taxes and liabilities		488,344	340,126
		(1,218,665)	**(1,101,599)**
Interest received		561,405	741,650
Interest paid		(270,591)	(174,523)
Income taxes paid		(148,900)	(70,503)
Indemnities paid	22	(2,205)	(1,249)
Bonus paid	22	(6,533)	(6,586)
Dividends received		9,734	9,777
Net cash used in operating activities		**(1,075,755)**	**(603,033)**
Cash flows from investing activities:			
Reserve requirements with the Central Bank		(206,390)	(162,160)
Change in trading securities		(5,101)	(1,741)
Change in available for sale investment securities		(314,934)	(315,325)
Purchases of property and equipment and investment property		(21,122)	(17,258)
Sale of property and equipment		6,138	1,605
Purchase of intangible assets	15	(506)	(630)
Net cash used in investing activities		**(541,915)**	**(495,509)**
Cash flows from financing activities:			
Proceeds from funds borrowed		2,389,125	2,051,498
Repayment of funds borrowed		(1,371,743)	(871,332)
Proceeds from debt securities issued		806,153	-
Dividends paid	33	(72,581)	(67,296)
Net cash provided from financing activities		**1,750,954**	**1,112,870**
Net decrease in cash and cash equivalents		**133,298**	**14,328**
Cash and cash equivalents at 1 January	5	**498,267**	**466,659**
Effect of exchange rate fluctuations on cash and cash equivalents held		11,407	17,280
Cash and cash equivalents at 31 December	5	**642,972**	**498,267**

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

Notes to the consolidated financial statements **Page**

1. REPORTING ENTITY

Türkiye Sınai Kalkınma Bankası AŞ ("TSKB" or the "Bank") was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ ("SYB"), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency ("BRSA") decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 81 Fındıklı, Istanbul, Turkey.

The Bank and its subsidiaries are hereafter referred to as the "Group".

TSKB started its journey in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group and T. Vakıflar Bankası T.A.O. with the percentages of 50.00% and 8.38%, respectively (31 December 2013: 50.00% and 8.38%, respectively).

The Bank has opened two branches in Izmir and Ankara in April 2006 to enhance marketing and valuation operations.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2014 are available upon request from the Bank's registered office and website.

Information about the consolidated subsidiaries and associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company's objective is to perform capital market operations specified in the company's main contract in accordance with the Capital Markets Board ("CMB") and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company's shares are traded in Borsa Istanbul ("BIST") since April 2010.

1. REPORTING ENTITY (continued)

Information about the consolidated subsidiaries and associates (continued)

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The company's headquarters is located at Istanbul/Turkey.

İş Faktoring AŞ

İş Faktoring AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993 and is conducting its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company's main operation is domestic and export factoring transactions. The company's headquarters is located at Istanbul/Turkey.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ as a private equity company, is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The company's headquarters is located at Istanbul/Turkey.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

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

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

The accompanying consolidated financial statements were authorized for issue by the Bank management on 23 February 2015.

2.2. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value.

The methods used to measure fair values are discussed further in Note 3.8.

2. BASIS OF PREPARATION (continued)

2.2. Basis of Measurement (continued)

International Accounting Standard ("IAS") 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods 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 has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilization, decrease in the interest rates and the appreciation of TL against the US Dollars ("USD"), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

2.3 Functional and Presentation Currency

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

2.4 Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, 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 recognized in the period in which the estimate is revised and in any future periods affected.

Critical accounting judgments made in applying the Bank's accounting policies include:

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

2. BASIS OF PREPARATION (Continued)

2.4 Use of Estimates and Judgments (Continued)

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note 3.8.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 3.8 – *measurement.*

Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

Reserve for employee severance payments

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.23 are reviewed regularly.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

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

Changes in accounting policies

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) (see (a))

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in accounting policies (continued)

(a) Offsetting financial assets and financial liabilities (Amendments to IAS 32)

As a result of the amendments to IFRS 32, since the figures are not material, the Group has not expanded disclosures about offsetting financial assets and financial liabilities.

3.1 Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination. The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group's holdings used in consolidation:

Entity	Sector	The Group's Share (%)
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	69.61

The consolidated financial statements of the companies below are accounted for under the equity method:

Entity	Sector	The Group's Share (%)
İş Finansal Kiralama AŞ	Leasing	29.24
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	17.06
İş Faktoring AŞ	Factoring	44.12

The following equity investments have been accounted at cost; they have not been consolidated or accounted under the equity method: their consolidation would not have a material effect on income for the year or on equity.

Entity	Sector	The Group's Share (%)
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
Terme Metal Sanayi ve Ticaret AŞ	Manufacturing	17.76
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	Warehousing	22.95
Sürdürülebilir Danışmanlık AŞ	Consultancy	97.07

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests 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.

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 Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an 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.

Investments in Associates (Equity-accounted Investees)

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

As at the reporting date, the Group has investments in associates with a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Associates (Equity-accounted Investees) (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests 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.

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.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. 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 foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized directly in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

As at 31 December 2014 and 31 December 2013, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2014 and 31 December 2013, exchange rates of US Dollar and Euro are as follows:

	2014		**2013**	
	Period End	**Average**	**Period End**	**Average**
1 US Dollar	2.3050	2.2708	2.1200	1.8881
1 Euro	2.8013	2.7970	2.9226	2.5091

3.3 Interest

Interest income and expense are recognized in the profit or loss using the effective interest method except for the interest income on overdue loans. 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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction cost and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

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

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss,
- coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Fees and commissions

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

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

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

3.5 Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

3.6 Dividends

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

3.7 Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or 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 are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Income tax (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss because they generally relate to income arising from transactions that were originally recognised in profit or loss.

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

Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax position and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.8 Financial assets and financial liabilities

Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

At inception, a financial asset is classified in one of the following categories:

- loans and receivables;
- available for sale; or
- at fair value through profit or loss and within the category as held for trading.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and 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 derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle them 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

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 interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Policy applicable before 1 January 2014:

The Group recognises transfers between levels of the fair value hierarchy as at the end of reporting period during which the change has occurred.

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. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and held to maturity investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held to maturity investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

The Group writes off loans and advances when they are determined to be uncollectible (Note 9). 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. Any subsequent reversal of impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an 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 statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 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. These include investments and derivative contracts that are not designated as effective hedging instruments. These derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the statement of financial position at cost and subsequently are measured at their fair value.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

3.11 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

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

Loans and advances classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

As of the reporting date, the Group has no held-to-maturity investments.

Fair value through profit or loss

The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss as described in designation at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale investments are those non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would meet the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity. The Group did not reclassify any available-for-sale asset subsequent to their initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

3.14 Property and equipment

Recognition and measurement

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

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property or equipment is recognized 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 carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Property and equipment (continued)

Recognition and measurement (continued)

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

Buildings	50 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment	4 years
Software	3 years
Leasehold and Leasehold Improvements	lease term or 5 years

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

3.15 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

3.16 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Intangible assets

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortisation and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized 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 recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.18 Leases

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Lease receivables are classified under loans in the accompanying statement of financial position.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and 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. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are 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 recognized.

3.20 Funds borrowed, debt securities issued and subordinated liabilities

Debt securities issued and subordinated liabilities are the Group's main sources of debt funding, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

3.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Provisions

A provision is recognized 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.

3.23 Employee benefits

Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

"T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "T.Sınai Kalkınma Bankası AŞ Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (the "Pension Funds") are separate legal entities and foundations recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Pension Funds are defined benefit plan under which the Bank pays fixed contributions as employer share of monthly premium contributions, and is not obliged to pay any other additional obligation.

The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act.

Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007. After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Employee benefits (continued)

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9,80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28277 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No:2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No:28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of the Council of Ministers published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

However the Main Opposition Party has appealed to the Constitutional Court on 19 June 2008 for cancellation of some articles, including the first paragraph of 20. Temporary article of the Law, and requested them to be ineffective until the case of revocatory action is finalized. The application of the Main Opposition Party was rejected by the Higher Court with the resolution dated 30 March 2011.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 2014 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 22 January 2015. There is no need for technical or actual deficit to book provision as of 31 December 2014.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after, in the context expressed above, would be financed by the assets of the Pension Fund and would not cause any extra burden on the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Employee benefits (continued)

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 22) in the calculation of the reserve for employee severance indemnity.

Short-term benefits

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

3.24 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.25 Fiduciary assets

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

3.26 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 Board of Directors (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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.27 New standards and interpretations not yet adopted

A number of new standards, amendments to standards effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 *Financial Instruments* (2013), IFRS 9 *Financial Instruments* (2010) and IFRS 9 *Financial Instruments* (2009) (together IFRS 9)

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

3.28 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 consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

4. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors of the Bank 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 Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Group places strong emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets.

The credit portfolio is monitored according to the overall composition and quality of the credit portfolio considering factors such as loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally. The Bank has also an internal credit risk rating system in managing the credit risk, which takes into account various financial and nonfinancial indicators for the evaluation of corporate and also guarantees.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in line with Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves". The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes sufficient collateral for the loans and other receivables extended. The collaterals obtained consist of personal suretyship, mortgage, cash blockage and client checks.

The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counterparties.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole.

If exposed to a significant degree of credit risk, the Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts.

The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications.

The Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern.

The international operations are made with many correspondent banks in various countries. The counterparty limits are set with operations made with the banks.

The Bank being an active participant in international banking market is not exposed to a significant degree of credit risk when evaluated with the financial operations of other financial institutions.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The credit portfolio is also monitored according to various criteria including industry sector, geographical area and risk categories. Credit risk by types of borrowers is as follows:

	Loans and Advances to Customers		Marketable Securities		Loans and Advances to Banks and Others	
	Current Period	**Prior Period**	**Current Period**	**Prior Period**	**Current Period**	**Prior Period**
Loans according to borrowers						
Private Sector	10,507,882	8,482,801	434,455	402,880	261,745	234,988
Public Sector	5,350	5,348	3,036,728	2,368,761	-	-
Banks	339,031	518,860	29,051	169,196	609,187	421,354
Retail Customers	-	53,413	-	-	-	-
Share Certificates	-	-	40,735	54,920	-	-
Total	**10,852,263**	**9,060,422**	**3,540,969**	**2,995,757**	**870,932**	**656,342**
Loans according to geographical						
Domestic	10,798,979	9,011,442	3,517,070	2,955,174	865,221	650,779
European Union	-	-	22,877	18,224	3,857	1,912
OECD Countries (*)	-	-	-	-	1,091	1,128
Off-Shore Banking Regions	-	-	1,022	22,359	-	-
USA, Canada	-	-	-	-	763	2,523
Other Countries	53,284	48,980	-	-	-	-
Total	**10,852,263**	**9,060,422**	**3,540,969**	**2,995,757**	**870,932**	**656,342**

(*) OECD countries except EU countries, USA and Canada

The geographical concentration of assets, liabilities and other credit related commitments are as follows:

31 December 2014	**Total Assets**	**%**	**Total Liabilities And Equity**	**%**	**Other Credit Related Commitments**	**%**
Turkey	16,047,986	99	6,224,307	39	14,361,130	100
Euro Zone	88,797	1	5,158,236	32	-	-
Offshore	1,022	-	1	-	-	-
USA, Canada	4,452	-	4,283,488	26	-	-
OECD Countries (*)	5,590	-	-	-	-	-
Other Countries	53,445	-	535,260	3	-	-
	16,201,292		**16,201,292**		**14,361,130**	

(*) OECD countries except EU countries, USA and Canada

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2013	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	13,351,272	99	5,395,142	40	9,931,690	100
Euro Zone	16,896	-	4,398,806	33	-	-
Offshore	21,498	-	80	-	-	-
USA, Canada	2,523		3,601,881	27	-	-
OECD Countries (*)	1,128	-	46,413	-	-	-
Other Countries	49,144	1	139	-	-	-
	13,442,461		**13,442,461**		**9,931,690**	

(*) OECD countries except EU countries, USA and Canada

The table below shows the maximum exposure to credit risk for the components of the statement of financial position;

	31 December 2014	31 December 2013
Gross maximum exposure		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	1,011,775	766,344
Interbank money market placements	104,913	50
Funds lent under repurchase agreements	293	-
Trading assets	20,543	19,561
Derivative financial assets held for trading	74,874	40,687
Loans and advances to customers	10,852,263	9,060,422
Available-for-sale investment securities	3,520,426	2,976,196
Total	**15,585,087**	**12,863,260**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of loans and advances as at 31 December 2014 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	503,981	-	-	-	503,981
Loans and advances to customers	10,810,256	75,040	(6,895)	(26,138)	10,852,263
Corporate lending	9,006,463	26,365	(4,963)	(21,690)	9,006,175
Small business lending	1,731,353	47,177	(843)	(4,271)	1,773,416
Other	72,440	1,498	(1,089)	(177)	72,672
Total	**11,314,237**	**75,040**	**(6,895)**	**(26,138)**	**11,356,244**

Credit quality per class of loans and advances as at 31 December 2013 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	421,304	-	-	-	421,304
Loans and advances to customers	9,053,441	37,386	(5,466)	(24,939)	9,060,422
Corporate lending	7,316,431	12,352	(3,950)	(20,105)	7,304,728
Small business lending	1,684,011	23,901	(797)	(4,685)	1,702,430
Other	52,999	1,133	(719)	(149)	53,264
Total	**9,474,745**	**37,386**	**(5,466)**	**(24,939)**	**9,481,726**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2014	31 December 2013
Loans and advances to customers		
Corporate lending	14,663	16,588
Small business lending	157,763	89,987
Total	**172,426**	**106,575**

Credit risk is evaluated according to the Bank's internal rating. Non-financial service customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial service customers, which are rated by external rating firms, are matched to the Bank's internal ratings. The loans rated according to the possibility of being in default are classified from the highest grade (top grade) to the lowest (below average) as below; at the bottom of the table there are credits in default (impaired) according to rating model.

	31 December 2014	31 December 2013
Basic Loan Quality Categories		
Top Grade	480,487	325,050
High Grade	2,245,543	3,463,517
Average Grade	6,175,049	4,551,900
Below Average Grade	2,899,642	1,681,207
Impaired	18,438	41,616
Total	**11,819,159**	**10,063,290**

Category "top" shows that the debtor has a very strong financial structure, "high" shows that the debtor has a strong financial structure, "average" shows the debtor's financial structure is good enough while "below average" category shows that debtor's financial structure is under risk in the short and medium term.

As at the reporting date, the total of the Group's cash and non-cash loans and financial lease receivables (gross amount including the non-performing loans, excluding the specific and portfolio provisions) is TL 12,338,365 and TL 519,206 of these customers have not been rated (31 December 2013: TL 10,544,247; TL 480,957).

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. For the purposes of monitoring and assessing the liquidity position of the Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year was as follows:

	31 December 2014 %	31 December 2013 %
Average during the period	131.29	140.86

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2014 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	14	14
Balances with central bank	-	-	-	34,612	34,612
Reserve deposits at central bank	473,168	-	-	-	473,168
Loans and advances to banks	489,522	-	-	14,459	503,981
Interbank money market placements	104,913	-	-	-	104,913
Funds lent under securities resale agreements	293	-	-	-	293
Trading assets	1,512	7,828	8,511	2,692	20,543
Derivative assets	18,129	23,686	33,059	-	74,874
Loans and advances to customers	1,012,148	1,747,334	8,020,341	72,440	10,852,263
Available-for-sale investment securities	220,505	265,668	2,995,676	38,577	3,520,426
Total	**2,320,190**	**2,044,516**	**11,057,587**	**162,794**	**15,585,087**
LIABILITIES					
Obligations under repurchase agreements	2,162,494	-	-	-	2,162,494
Derivative liabilities	11,907	21,356	30,313	-	63,576
Funds borrowed and subordinated loan	683,795	960,942	8,622,910	-	10,267,647
Debt securities issued	-	-	813,824	-	813,824
Payables to stock exchange money market	110,219	-	-	-	110,219
Current account of loan customers	39,081	-	-	-	39,081
Taxes and dues payable	5,332	-	-	-	5,332
Corporate tax liability	32,390	-	-	-	32,390
Employee benefits	7,902	-	-	9,475	17,377
Total	**3,053,120**	**982,298**	**9,467,047**	**9,475**	**13,511,940**

The maturity analysis for certain asset and liability items is estimated.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2013 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	107	107
Balances with central bank	-	-	-	78,155	78,155
Reserve deposits at central bank	250,282	16,496	-	-	266,778
Loans and advances to banks	405,791	-	-	15,513	421,304
Interbank money market placements	50	-	-	-	50
Trading assets	4,027	4,583	9,755	1,196	19,561
Derivative assets	5,930	12,020	22,737	-	40,687
Loans and advances to customers	684,474	1,565,241	6,757,708	52,999	9,060,422
Available-for-sale investment securities	403,313	676,121	1,842,595	54,167	2,976,196
Total	**1,753,867**	**2,274,461**	**8,632,795**	**202,137**	**12,863,260**
LIABILITIES					
Obligations under repurchase agreements	1,558,936	45,955	-	-	1,604,891
Derivative liabilities	21,720	12,859	23,278	-	57,857
Funds borrowed and subordinated loan	551,813	849,876	7,830,107	-	9,231,796
Payables to stock exchange money market	251,313	-	-	-	251,313
Current account of loan customers	5,954	-	-	-	5,954
Taxes and dues payable	4,522	-	-	-	4,522
Corporate tax liability	18,137	-	-	-	18,137
Employee benefits	6,596		-	8,676	15,272
Total	**2,418,991**	**908,690**	**7,853,385**	**8,676**	**11,189,742**

The maturity analysis for certain asset and liability items is estimated.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

As at 31 December 2014	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
Payables to stock exchange money market	110,569	-	-	-	-	(350)	110,219
Funds borrowed and subordinated loan	446,733	262,726	1,030,870	4,331,378	4,855,915	(659,975)	10,267,647
Obligations under repurchase agreements	2,072,951	90,822	-	-	-	(1,279)	2,162,494
Debt securities issued	-	-	43,724	980,201	-	(210,101)	813,824
Total	**2,630,253**	**353,548**	**1,074,594**	**5,311,579**	**4,855,915**	**(871,705)**	**13,354,184**

As at 31 December 2013	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
Payables to stock exchange money market	251,789	-	-	-	-	(476)	251,313
Funds borrowed and subordinated loan	421,610	152,117	906,042	3,712,473	4,599,703	(560,149)	9,231,796
Obligations under repurchase agreements	1,559,527	-	46,665	-	-	(1,301)	1,604,891
Total	**2,232,926**	**152,117**	**952,707**	**3,712,473**	**4,599,703**	**(561,926)**	**11,088,000**

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

As at 31 December 2014	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	1,509,858	651,579	615,593	3,436,171	1,873,930	(62,545)	8,024,586
Forward contracts	5,761	43,985	-	-	-	-	49,746
Options	542,833	65,876	878,222	-	-	-	1,486,931
Total	**2,058,452**	**761,440**	**1,493,815**	**3,436,171**	**1,873,930**	**(62,545)**	**9,561,263**

As at 31 December 2013	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	629,600	386,582	194,122	2,074,156	473,557	3,498	3,761,515
Forward contracts	7,968	450,195	139,141	-	-	-	597,304
Options	135,566	130,116	301,372	237,706	-	-	804,760
Total	**773,134**	**966,893**	**634,635**	**2,311,862**	**473,557**	**3,498**	**5,163,579**

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of financial assets and liabilities and other financial contracts will have an adverse financial impact. The primary risks within the Group's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Group's statement of financial position is denominated in currencies other than the Turkish Lira (principally the US Dollar and Euro-zone currencies).

The Group's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Group's treasury and financial assets trading divisions.

The Group benefits from VAR methods, stress testing and scenario analysis for measuring market risk. VAR calculations are made by choosing the 90, 95 and 99% confidence intervals, 1 day/10 days holding periods.

Interest Rate Risk

The Group is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2014:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	14	14
Balance with the Central Bank	-	-	-	34,612	34,612
Reserve deposits at central bank	-	-	-	473,168	473,168
Loans and advances to banks	489,522	-	-	14,459	503,981
Interbank money market placements	104,913	-	-	-	104,913
Funds lent under securities resale agreements	293	-	-	-	293
Trading assets	9,722	6,066	2,063	2,692	20,543
Derivative assets	21,548	53,326	-	-	74,874
Loans and advances to customers	5,512,430	3,906,048	1,361,345	72,440	10,852,263
Available-for-sale investment securities	1,435,131	918,699	1,128,019	38,577	3,520,426
Total	**7,573,559**	**4,884,139**	**2,491,427**	**635,962**	**15,585,087**
LIABILITIES					
Obligations under repurchase agreements	2,162,494	-	-	-	2,162,494
Derivative liabilities	17,704	43,289	2,583	-	63,576
Funds borrowed and subordinated loan	6,631,680	2,250,201	1,385,766	-	10,267,647
Debt securities issued	-	-	813,824	-	813,824
Payables to stock exchange money market	110,219	-	-	-	110,219
Current account of loan customers	39,081	-	-	-	39,081
Taxes and dues payable	-	-	-	5,332	5,332
Corporate tax liability	-	-	-	32,390	32,390
Employee benefits	-	-	-	17,377	17,377
Total	**8,961,178**	**2,293,490**	**2,202,173**	**55,099**	**13,511,940**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2013:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	107	107
Balance with the Central Bank	-	-	-	78,155	78,155
Reserve deposits at central bank	-	-	-	266,778	266,778
Loans and advances to banks	405,791	-	-	15,513	421,304
Funds lent under repurchase agreements	50	-	-	-	50
Trading assets	16,524	1,841	-	1,196	19,561
Derivative assets	5,930	14,936	19,821	-	40,687
Loans and advances to customers	4,936,441	3,520,605	550,377	52,999	9,060,422
Available-for-sale investment securities	1,716,740	474,783	730,506	54,167	2,976,196
Total	**7,081,476**	**4,012,165**	**1,300,704**	**468,915**	**12,863,260**
LIABILITIES					
Obligations under repurchase agreements	1,558,936	45,955	-	-	1,604,891
Derivative liabilities	21,720	12,895	23,242	-	57,857
Funds borrowed and subordinated loan	6,251,004	2,215,319	765,473	-	9,231,796
Payables to stock exchange money market	251,313	-	-	-	251,313
Current account of loan customers	5,954	-	-	-	5,954
Taxes and dues payable	-	-	-	4,522	4,522
Corporate tax liability	18,137	-	-	-	18,137
Employee benefits	6,596	-	-	8,676	15,272
Total	**8,113,660**	**2,274,169**	**788,715**	**13,198**	**11,189,742**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Sensitivity (continued)

As at 31 December 2014, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %
Assets			
Cash & Balances with central bank	1.44	-	-
Banks	11.08	2.83	0.44
Interbank money market placements	10.21	-	-
Funds lent under repurchase agreements	8.55	-	-
Trading assets	-	-	-
Loans and advances to customers	10.60	3.83	4.39
Lease receivables	-	-	-
Available-for-sale investment securities	9.72	5.60	5.88
Liabilities			
Obligations under repurchase agreements	9.95	0.50	0.68
Funds borrowed and subordinated loan	3.31	1.16	1.15
Payables to stock exchange money market	10.49	-	-
Current account of loan customers	6.00	0.50	0.50

As at 31 December 2013, a summary of average interest rates for different assets and liabilities are as follows:

	TL %	Euro %	US Dollar %
Assets			
Cash & Balances with central bank	-	-	-
Banks	8.00	2.97	3.31
Interbank money market placements	9.00	-	-
Trading assets	10.61	-	-
Loans and advances to customers	9.37	3.77	4.16
Lease receivables	-	3.05	-
Available-for-sale investment securities	9.51	5.45	6.73
Liabilities			
Obligations under repurchase agreements	6.57	0.51	0.88
Funds borrowed and subordinated loan	9.80	0.89	1.11
Payables to stock exchange money market	8.15	-	-
Current account of loan customers	4.00	0.50	0.50

The Group's interest rate sensitivity is calculated according to the market risk related to assets and liabilities. In this context, at the reporting date, if interest rates had been 1 bp higher for TL and foreign currency and all other variables were held constant, the net increase on the profit and shareholders' equity would have been TL 5,812 and if interest rates had been 1 bp lower for TL and foreign currencies, the net decrease on the profit and shareholders' equity would have been TL (1,367).

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Other Price Risks

Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to stock price risks at the reporting date.

The Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.

As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.

According to the analysis results under these assumptions; profit/loss will increase/decrease by TL 2,322 (31 December 2013: TL 2,166), marketable securities classified as financial assets held for trading would decrease/increase by TL 478 (31 December 2013: TL 203 marketable securities value increase fund increase/decrease).

Unless the equity share investments classified as assets available for sale are disposed of or impaired, the net profit/loss will not be affected.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2014:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	2,942	42	-	2,984
Reserve deposits at Central Bank	69,053	329,438	74,677	473,168
Loans and advances to banks	193,697	99,671	2,396	295,764
Derivative financial instruments	4,835	10,471	-	15,306
Loans and advances to customers	3,584,589	6,201,710	-	9,786,299
Available-for-sale investment securities	28,547	530,441	-	558,988
Other assets	-	46,810	-	46,810
Total Assets	**3,883,663**	**7,218,583**	**77,073**	**11,179,319**
Liabilities				
Obligations under repurchase agreements	10,883	228,952	-	239,835
Derivative financial liabilities held for trading	4,323	7,961	-	12,284
Funds borrowed and subordinated loan	4,253,145	5,786,583	-	10,039,728
Marketable Securities Issued	-	813,824	-	813,824
Current account of loan customers	12,306	26,152	-	38,458
Other liabilities	4,221	15,011	1,200	20,432
Total Liabilities	**4,284,878**	**6,878,483**	**1,200**	**11,164,561**
Net Statement of Financial Position	**(401,215)**	**340,100**	**75,873**	**14,758**
Off Balance Sheet Position				
Derivatives to sell	746,084	699,758	63,998	1,509,840
Derivatives to buy	(434,625)	(1,043,824)	(138,675)	(1,617,124)
	311,459	**(344,066)**	**(74,677)**	**(107,284)**
Net Position	**(89,756)**	**(3,966)**	**1,196**	**(92,526)**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2013:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	3,069	33,017	-	36,086
Reserve deposits at Central Bank	139,034	127,744	-	266,778
Loans and advances to banks	141,924	267,247	2,162	411,333
Derivative financial instruments	15,397	16,265	-	31,662
Loans and advances to customers	3,563,092	4,914,340	-	8,477,432
Available-for-sale investment securities	32,845	345,221	-	378,066
Other assets	1	46,038	-	46,039
Total Assets	**3,895,362**	**5,749,872**	**2,162**	**9,647,396**
Liabilities				
Obligations under repurchase agreements	6,845	239,386	-	246,231
Derivative financial liabilities held for trading	16,998	15,351	-	32,349
Funds borrowed and subordinated loan	4,158,504	4,999,017	-	9,157,521
Current account of loan customers	1,522	5,351	-	6,873
Other liabilities	2,436	8,868	907	12,211
Total Liabilities	**4,186,305**	**5,267,973**	**907**	**9,455,185**
Net Statement of Financial Position	**(290,943)**	**481,899**	**1,255**	**192,211**
Off Balance Sheet Position				
Derivatives to sell	505,646	308,449	14,559	828,654
Derivatives to buy	(356,675)	(819,497)	(14,557)	(1,190,729)
	148,971	**(511,048)**	**2**	**(362,075)**
Net Position	**(141,972)**	**(29,149)**	**1,257**	**(169,864)**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency sensitivity

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Group's top management.

Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

The Group is mostly exposed to Euro and US Dollar currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	% Increase	Effect on profit or loss(*)		Effect on equity(**)	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013
US Dollar	10%	(5,248)	18,026	4,851	1,419
Euro	10%	(9,217)	(36,703)	241	146
Other	10%	120	126	-	-

	% Decrease	Effect on profit or loss(*)		Effect on equity(**)	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013
US Dollar	10%	5,248	(18,026)	(4,851)	(1,419)
Euro	10%	9,217	36,703	(241)	(146)
Other	10%	(120)	(126)	-	-

(*) Values expressed are before the tax effect.

(**) Effect on equity does not include effect on profit/loss.

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

4. FINANCIAL RISK MANAGEMENT (continued)

Capital management – regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.
- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, other comprehensive income, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, leasehold improvements on operational leases and other certain costs.
- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2014.

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. Operational risk capital requirements and market risk capital requirements as at 31 December 2014 and 2013 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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 and the previous year.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Capital management – regulatory capital (continued)

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis at 31 December 2014 and 2013 was as follows:

	2014(*)	**2013**
Tier 1 capital	2,414,594	2,009,466
Tier 2 capital	140,810	138,282
Deductions from capital	(21,662)	(235,344)
Total regulatory capital	**2,533,742**	**1,912,404**
Risk-weighted assets	12,535,425	10,417,150
Value at market risk	402,050	331,850
Operational risk	882,564	791,656
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	18.33%	16.57%
Total Tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	17.47%	17.41%

As at 31 December 2014, the Bank's capital adequacy ratio on an unconsolidated basis is 18.09% (31 December 2013: 18.15%). The Group's consolidated capital adequacy ratio as at 31 December 2014 is 18.33% (31 December 2013: 16.57%).

(*) Calculation of regulatory capital is changed effective from 1 January 2014 as per the Regulation on Equity of Banks published in the official Gazette no. 28756 dated 5 September 2013.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Operational risk

Operational risk amount of the Group is measured with Basic Indicator Method referring to "Regulation on Measurement and Assessment of Capital Adequacy of Banks" According to this method; the calculation is performed parallel to the practice within the country, by multiplying 15% of the Group's last three years' average gross revenue with 12.5. The amount, calculated as TL 882,564 as at 31 December 2014 (31 December 2013: TL 791,656) represents the operational risk.

Yearly gross income, as presented on the income statement; is calculated with net interest income plus net fee and commission, dividend income except from subsidiaries and associates, trading profit/loss and other operational income minus profit/loss gain on sale of assets other than of trading accounts, extraordinary income, operational expense for support service from a bank and recoveries from insurance.

5. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash on hand – Turkish Lira ("TL")	14	107
Cash on hand – Foreign currencies ("FC")	-	-
Total cash and cash equivalents	**14**	**107**

There is no blockage on the use of cash and cash equivalents as of 31 December 2014 (31 December 2013: None).

	31 December 2014	31 December 2013
Cash and cash equivalents	14	107
Loans and advances to banks (with original maturity of less than 3 months)	503,981	421,304
Unrestricted balances with the central bank	34,612	78,155
Funds lent under repurchase agreements	293	-
Interbank money market placements	104,913	50
Total cash and cash equivalents in the consolidated statement of financial position	**643,813**	**499,616**
Accruals on cash and cash equivalents	(841)	(1,349)
Total cash and cash equivalents in the consolidated statement of cash flows	**642,972**	**498,267**

6. BALANCES WITH CENTRAL BANK

a) Unrestricted balances with central bank

	31 December 2014	31 December 2013
Demand deposits – TL	31,628	42,069
Demand deposits – FC	2,984	36,086
Total	**34,612**	**78,155**

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

6. BALANCES WITH CENTRAL BANK (continued)

b) Reserve Deposits at central bank

	31 December 2014	31 December 2013
Foreign currency reserves	473,168	266,778
Total	**473,168**	**266,778**

As per the Communiqué numbered 2005/1 "Reserve Deposits" of the Central Bank of the Republic of Turkey ("CBRT"), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-day periods. In accordance with the related communiqué, as of 5 November 2014 interest amount is paid for reserve.

As per the "Communiqué on Amendments to be Made on Communiqué on Required Reserves" of Central Bank of the Republic of Turkey, nr. 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at Central Bank of the Republic of Turkey based on rates mentioned below. Reserve rates prevailing at 31 December 2014 are presented in table below:

	Foreign Currency Liabilities Required Reserve Rates (%)	Turkish Lira Liabilities Required Reserve Rates (%)
Other liabilities up to 1 year maturity (including 1 year)	13	11.5
Other liabilities up to 1 year maturity (including 1 year)	11	8
Other liabilities longer than 3 years maturity	6	5

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

7. LOANS AND ADVANCES TO BANKS

	31 December 2014	31 December 2013
Domestic Banks		
Demand deposits – TL	22,914	1,745
Time deposits – TL	185,303	8,226
Demand deposits – FC	101,159	8,204
Time deposits – FC	188,894	397,566
	498,270	**415,741**
Foreign Banks		
Demand deposits – FC	5,711	5,563
	5,711	**5,563**
Total	**503,981**	**421,304**

The time deposits above mature within 1 - 91 days and earn interest at rates ranging 5.75-11.50% for TL balances, 0.35-3.35% for foreign currency balances as at the reporting date (31 December 2013: Maturity: 1 - 52 days; interest rate 5.90-9.00% for TL balances and 1.00-3.50% for foreign currency).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2014	31 December 2013
Trading assets		
Government bonds and treasury bills in TL	7,887	8,717
Debt securities issued by corporations	9,964	9,647
Equity shares	2,388	988
Mutual funds	304	209
Total	**20,543**	**19,561**

The above government bonds and treasury bills include securities given as collateral or blocked amounting to TL 7,878 and there is TL 293 pledged securities under repurchase agreements as at the reporting date (31 December 2013: TL 8,674 and nil respectively).

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

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2014	31 December 2013
Short-term and current portion of long term loans	1,319,972	2,300,871
Long-term loans	9,546,886	6,752,570
Total performing loans	**10,866,858**	**9,053,441**
Non-performing loans	18,438	37,386
Total loans	**10,885,296**	**9,090,827**
Less: Specific reserve for impairment losses on loans	(6,895)	(5,466)
Less: Portfolio reserve for impairment losses on loans	(26,138)	(24,939)
Total loans	**10,852,263**	**9,060,422**

Movements in the reserve for impairment losses on loans for the year ended 2014 and 2013 are as follows:

	1 January – 31 December 2014	1 January – 31 December 2013
Specific reserve for cash loans:		
As at 1 January	5,466	11,495
Charge for the year	2,147	145
Reserve released and write offs	(718)	(6,174)
As at 31 December	**6,895**	**5,466**
Portfolio reserve for cash loans:		
As at 1 January	24,939	20,182
Charge for the year	1,199	4,757
As at 31 December	**26,138**	**24,939**
Total reserve for impairment losses on loans	**33,033**	**30,405**

Loans can be further analysed by customer groups as follows:

	31 December 2014	31 December 2013
<u>**Sector**</u>		
Corporate customers	9,032,828	7,328,783
Small business	1,778,530	1,707,912
Other	73,938	54,132
	10,885,296	**9,090,827**

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

	31 December 2014	31 December 2013
Currency		
Euro	2,856,034	2,587,944
US Dollar	5,619,887	4,290,952
Foreign currency indexed TL loans	1,330,851	1,619,009
Turkish Lira	1,078,524	592,922
Total	**10,885,296**	**9,090,827**

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid at the Turkish Lira equivalent of the currency to which they are indexed.

Performing loans, receivables and non-performing loans can be analysed by sector as follows:

Sector	**31 December 2014**		**31 December 2013**	
	Loans	**Non-performing**	**Loans**	**Non-performing**
Energy	4,602,935	-	3,542,040	17,238
Finance	1,543,816	-	1,377,441	-
Metal	639,681	48	569,354	48
Tourism	542,566	-	271,556	-
Chemical	368,851	-	301,881	-
Cement	257,884	59	226,120	59
Plastics	219,482	-	172,011	-
Construction	144,498	4,887	106,353	517
Textile	96,439	1,623	75,532	1,976
Motor Vehicles	63,255	-	83,468	-
Health Services	60,750	-	69,401	5,365
Food and Beverages	57,930	6,411	122,360	7,126
Education	48,763	-	13,819	-
Pulp and Paper	36,904	-	72,772	22
Rubber and Tires	14,279	-	14,897	-
Ceramics	4,032	-	13,171	-
Machinery Production	3,873	284	5,564	282
Farming	2,636	3,433	5,307	3,430
Lumber and Wood	-	-	5,412	-
Other	2,158,283	1,693	2,004,982	1,323
Total	**10,866,857**	**18,438**	**9,053,441**	**37,386**

TL 271,858 of the cash loans are extended to related parties. Related parties have TL 117,676 non-cash loan risk as at the reporting date (31 December 2013: TL 290,027 and TL 117,675; respectively).

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

Interest rates ranges for short term loans are as follows:

	31 December 2014	31 December 2013
Euro	0.71-4.23%	0.74-4.11%
US Dollar	2.25-5.13%	3.40-4.60%
TL	7.29-11.83%	7.50-12.54%

Interest rates ranges for long term loans are as follows:

	31 December 2014	31 December 2013
Euro	1.88-7.43%	2.00-7.64%
US Dollar	2.04-7.60%	2.05-7.60%
TL	3.17-14.52%	7.45-15.50%

The collaterals for the loans extended to the related parties are TL 52,691 as at the reporting date (31 December 2013: TL 57,003).

Loans include finance lease receivables. Components of the lease contracts are as follows:

	31 December 2014	31 December 2013
Lease payments receivable	87	4,573
(Less): Unearned income	(87)	(55)
Finance lease receivables	**-**	**4,518**
Current maturity – net	-	4,518
Long - term portion – net	-	-
Finance lease receivables	**-**	**4,518**

For the year ended 31 December 2014 there is no finance lease receivables. As of 31 December 2013, currency components of finance lease receivables are as follows (amounts in thousands and original currencies):

Maturity	TL	Euro	JPY	US Dollar
2014	-	1,546	-	-
	-	**1,546**	-	-

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

Set out below is an analysis of loans as at 31 December 2014 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	9,006,463	1,731,353	72,440	-	10,810,256
Past due not impaired	11,913	44,689	-	-	56,602
Individually impaired	14,452	2,488	1,498	-	18,438
Total gross	**9,032,828**	**1,778,530**	**73,938**	**-**	**10,885,296**
Less: reserve for individually impaired loans	(4,963)	(843)	(1,089)	-	(6,895)
Less: reserve for collectively impaired loans	-	-	-	(26,138)	(26,138)
Total reserve for impairment	**(4,963)**	**(843)**	**(1,089)**	**(26,138)**	**(33,033)**
Total, net	**9,027,865**	**1,777,687**	**72,849**	**(26,138)**	**10,852,263**

Set out below is an analysis of loans as at 31 December 2013 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	7,316,431	1,684,011	52,999	-	9,053,441
Past due not impaired	-	-	-	-	-
Individually impaired	12,352	23,901	1,133	-	37,386
Total gross	**7,328,783**	**1,707,912**	**54,132**	**-**	**9,090,827**
Less: reserve for individually impaired loans	(3,950)	(797)	(719)	-	(5,466)
Less: reserve for collectively impaired loans	-	-	-	(24,939)	(24,939)
Total reserve for impairment	**(3,950)**	**(797)**	**(719)**	**(24,939)**	**(30,405)**
Total, net	**7,324,833**	**1,707,115**	**53,413**	**(24,939)**	**9,060,422**

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

A reconciliation of the specific reserve for impairment losses by customer groups is as follows:

	Corporate	Small Business	Other	Total
At 1 January 2014	3,950	797	719	5,466
Charge for the year	1,164	264	719	2,147
Recoveries, releases and write offs	(151)	(218)	(349)	(718)
At 31 December 2014	**4,963**	**843**	**1,089**	**6,895**

	Corporate	Small Business	Other	Total
At 1 January 2013	9,339	720	1,436	11,495
Charge for the year	44	101	-	145
Recoveries, releases and write offs	(5,433)	(24)	(717)	(6,174)
At 31 December 2013	**3,950**	**797**	**719**	**5,466**

Of the total aggregate amount of non-performing loans and advances to customers, the fair value of collaterals that the Bank held as at 31 December 2014 is TL 15,797 (31 December 2013: TL 35,285).

As at 31 December 2014, the aging analysis of past due but not impaired loans per customer groups is as follows (31 December 2013: There is no past due but not impaired loans):

2014	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	-	6,778	5,135	-	11,913
Small business lending	952	43,737	-	-	44,689
Total	**952**	**50,515**	**5,135**	**-**	**56,602**

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that Bank has TL 54,414 loans as of 31 December 2014 (31 December 2013: None).

Loans and advances to customers not impaired amounting to TL 8,260,541 have floating interest rates (31 December 2013: TL 7,743,647) and the remaining TL 2,606,317 have fixed interest rates (31 December 2013: TL 1,309,794).

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

10. INVESTMENT SECURITIES

Available-for-sale investment securities

	31 December 2014	31 December 2013
Government bonds and treasury bills in TL	2,491,044	1,996,493
Debt securities issued by corporations	460,786	592,725
Eurobonds	530,019	332,811
Equity shares	38,577	54,167
Total	**3,520,426**	**2,976,196**

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 2,324,039 as at the reporting date (31 December 2013: TL 1,740,931).

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and Takasbank ISE Settlement an Custody Bank Inc. (Clearing House) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2014 and 31 December 2013 are as follows:

	2014 Nominal Value	2014 Carrying Value	2013 Nominal Value	2013 Carrying Value
Government Bonds and Treasury Bills:				
Central Bank- Open Market Operations	33,000	37,936	94,581	108,313
Clearing House – Blocked Securities	58,591	63,749	45,850	46,318
Other (International Bank) Foreign Currency	131,825	144,767		
Central Bank- custody	5,000	5,087	-	-
	228,416	**251,539**	**140,431**	**154,631**

Held to maturity investment securities

As of the reporting date, the Group has no investment securities held-to-maturity (31 December 2013: None).

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

10. INVESTMENT SECURITIES (continued)

The Group's equity shares in available-for-sale investment securities are as follows:

	Ownership %	31 December 2014	31 December 2013
Investee			
İstanbul Takas ve Saklama AŞ	1.62	10,724	32,030
İş B Tipi Yatırım Ortaklığı AŞ	6.95	11,610	10,828
İş Portföy Yönetimi AŞ	9.9	6,197	4,217
European Investment Fund	0.17	6,240	2,957
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ (*)	11.48	1,555	1,235
Cam Elyaf Sanayi AŞ	0.71	618	618
TSKB Gayrimenkul Değerleme AŞ (*)	99.99	379	379
Borsa İstanbul A.Ş.	0.1	372	372
TSKB Gayrimenkul Danışmanlık AŞ	-	-	323
Terme Metal San. Ve Tic. AŞ (*)	17.83	-	291
Sürdürülebilir Danışmanlık AŞ (*)	96	230	230
Others	<1.00	652	687
Total equity shares in available for sale investments		**38,577**	**54,167**

(*) The investments in TSKB Gayrimenkul Değerleme AŞ, Terme Metal San. ve Tic. AŞ, Sürdürülebilir Danışmanlık AŞ and Ege Tarım Ürünleri Lisanslı Depoculuk AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

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

11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

As at 31 December 2014 and 2013, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2014
Investee			
İş Finansal Kiralama AŞ	28.56	131,805	182,988
İş Faktoring AŞ	21.75	8,700	33,607
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	45,140
		152,947	**261,745**

	Ownership (%)	Nominal	31 December 2013
Investee			
İş Finansal Kiralama AŞ	28.59	121,332	162,817
İş Faktoring AŞ	21.75	8,700	30,644
İş Girişim Serm. Yat. Ort. AŞ	16.67	11,109	41,527
		141,141	**234,988**

The Group's share of profit in its equity-accounted investees for the year 31 December 2014 was TL 27,136 (31 December 2013: TL 31,975). In 2014 the Group has received dividends of TL 18,167 from its investments in equity-accounted investees (31 December 2013: TL 21,919).

The Group's equity-accounted investees are listed on BIST, except for İş Faktoring AŞ. Based on their closing prices of TL 0.95 of İş Finansal Kiralama AŞ and TL 2.21 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment in listed entities is TL 152,712 (31 December 2013: TL 0.95 of İş Finansal Kiralama AŞ and TL 2.59 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 144,038).

Summary financial information for equity-accounted investees is as follows:

31 December 2014	Total assets	Equity	Current Period Profit	Fair value
İş Finansal Kiralama AŞ	3,161,195	626,023	72,421	125,215
İş Faktoring AŞ	1,454,609	76,177	7,938	-
İş Girişim Serm. Yat. Ort. AŞ	269,124	264,412	14,598	27,497
	4,884,928	**966,612**	**94,957**	**152,712**

31 December 2013	Total assets	Equity	Current Period Profit	Fair Value
İş Finansal Kiralama AŞ	3,492,581	603,638	39,589	115.266
İş Faktoring AŞ	971,615	69,461	11,944	-
İş Girişim Serm. Yat. Ort. AŞ	420,681	268,703	68,664	28.772
	4,884,877	**941,802**	**120,197**	**144,038**

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

12. GOODWILL

Cost	
Balance at 1 January 2013	383
Balance at 31 December 2013	383
Balance at 31 December 2014	**383**
Impairment	
At 1 January 2013	-
At 31 December 2013	-
At 31 December 2014	-
Carrying Amount	
Balance at 1 January 2013	383
Balance at 31 December 2013	383
Balance at 31 December 2014	**383**

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the investees are determined from cash flows projections. The Bank's management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts.

As at 31 December 2014, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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

13. PROPERTY AND EQUIPMENT

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	CIP& Advances Given	Total
Acquisition Cost								
Balance at 1 January 2014	**1,339**	**5,546**	**41,724**	**8,216**	**1,420**	**10,842**	-	**69,087**
Additions	463	287	1,658	1,077	761	995	1,562	6,803
Disposals	(464)	(180)	(1,706)	(427)	(755)	(143)	-	(3,675)
Transfers from CIP	-	-	644	-	-	106	-	750
Transfers to other items	-	-	-	-	-	-	(752)	(752)
Balance at 31 December 2014	**1,338**	**5,653**	**42,322**	**8,869**	**1,426**	**11,800**	**810**	**72,213**
Accumulated Depreciation								
Balance at 1 January 2014	**(495)**	**(3,881)**	**(23,992)**	**(6,403)**	**(948)**	**(8,801)**	-	**(44,520)**
Charge for the year	-	(392)	(786)	(637)	(276)	(652)	-	(2,743)
Impairment during the year	(17)	-	-	-	-	-	-	(17)
Disposals	338	65	15	427	706	135	-	1,686
Balance at 31 December 2014	**(174)**	**(4,208)**	**(24,763)**	**(6,613)**	**(518)**	**(9,318)**	-	**(45,594)**
Net Book Value at 31 December 2014	**1,164**	**1,445**	**17,559**	**2,256**	**908**	**2,482**	**805**	**26,619**

At 31 December 2014, the net carrying amount of leased property and equipment is TL 492.

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

13. PROPERTY AND EQUIPMENT

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	Total
Acquisition Cost							
Balance at 1 January 2013	**1,335**	**5,123**	**41,847**	**8,514**	**1,317**	**9,643**	**67,779**
Additions	156	1,386	44	460	285	1,213	3,544
Disposals	(152)	(963)	(167)	(758)	(182)	(14)	(2,236)
Balance at 31 December 2013	**1,339**	**5,546**	**41,724**	**8,216**	**1,420**	**10,842**	**69,087**
Accumulated Depreciation							
Balance at 1 January 2013	**(475)**	**(4,448)**	**(23,185)**	**(6,454)**	**(907)**	**(8,349)**	**(43,818)**
Charge for the year	-	(396)	(812)	(704)	(223)	(468)	(2,603)
Impairment during the year	(20)	-	-	-	-	-	(20)
Disposals	-	963	5	756	182	15	1,921
Balance at 31 December 2013	**(495)**	**(3,881)**	**(23,992)**	**(6,403)**	**(948)**	**(8,801)**	**(44,520)**
Net Book Value at 31 December 2013	**844**	**1,665**	**17,732**	**1,813**	**472**	**2,040**	**24,567**

At 31 December 2013, the net carrying amount of leased property and equipment is TL 147.

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

14. INVESTMENT PROPERTY

	31 December 2014	31 December 2013
Fair value of investment properties	224,090	222,295
	224,090	**222,295**

The Group's investment properties are held under freehold interests.

In the current period, the Group has 3 investment properties with a total net book value of TL 224,090 (31 December 2013: TL 222,295) belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector.

The total external rent income earned by the Group from its investment properties is TL 7,810 in the current period (31 December 2013: TL 7,648). The management states that there is no material operating expenses arising on its investment properties for the year.

The movement of investment properties as at 31 December 2014 and 31 December 2013 are as follows:

Current Period	**Closing Balance of Prior Period**	**Additions**	**Disposals**	**Change in Fair Value**	**Closing Balance of Current Period**
Tahir Han	14,320	-	-	1,140	15,460
Pendorya Mall	179,200	686	-	(11,486)	168,400
Adana Hotel Project	28,775	23,346	(10,346)	(1,545)	40,230
Total	**222,295**	**24,032**	**(10,346)**	**(11,891)**	**224,090**

Prior Period	**Closing Balance of Prior Period**	**Additions**	**Disposals**	**Change in Fair Value**	**Closing Balance of Current Period**
Tahir Han	10,100	-	-	4,220	14,320
Pendorya Mall	211,620	620	(21)	(33,019)	179,200
Adana Hotel Project	18,650	13,063	(386)	(2,552)	28,775
Total	**240,370**	**13,683**	**(407)**	**(31,351)**	**222,295**

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

14. INVESTMENT PROPERTY (Continued)

Fair value measurement

The Group's investment properties are valued annually by an independent real estate appraisal company. The fair value of investment properties are within the scope of Level 3 according to valuation techniques. Reconciliation of Level 3 is given at the following table:

	1 January – 31 December 2014	1 January – 31 December 2013
Balance 1 Januarry	222,295	240,370
Addition	24,032	13,683
Disposal	(10,346)	(407)
Recognized in other income from other operations		
Change in fair value	1,140	4,220
Recognized in other expense from other operations		
Change in fair value	(13,031)	(35,571)
Total	**224,090**	**222,295**

15. INTANGIBLE ASSETS

The intangible fixed assets include software that are amortised principally on straight line basis which amortise the assets over their expected useful lives.

	31 December 2014	31 December 2013
Acquisition cost		
Balance at 1 January	5,168	4,538
Additions	506	630
Disposals	(22)	-
Balance at 31 December	**5,652**	**5,168**
Accumulated amortisation		
Balance at 1 January	(3,923)	(3,522)
Charge for the year	(582)	(401)
Disposals	22	-
Balance at 31 December	**(4,483)**	**(3,923)**
Net Book Value, as at 31 December	**1,169**	**1,245**

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

16. OTHER ASSETS

	31 December 2014	31 December 2013
Cash guarantees given	46,540	45,446
Prepaid expenses	23,471	18,366
VAT carried forward	8,620	10,381
Prepaid taxes	2,477	161
Receivables from brokerage customers	2,036	-
Trade receivables	1,311	989
Other	8,804	5,403
Total	**93,259**	**80,746**

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The securities sold under repurchase agreements and corresponding obligations are as follows:

	2014 Carrying Value of Underlying Securities	2014 Carrying Value of Corresponding Liability	2014 Repurchase Value
Available for sale investment securities	2,324,039	2,162,494	2,163,539
	2,324,039	**2,162,494**	**2,163,539**

	2013 Carrying Value of Underlying Securities	2013 Carrying Value of Corresponding Liability	2013 Repurchase Value
Available for sale investment securities	1,740,931	1,604,891	1,606,107
	1,740,931	**1,604,891**	**1,606,107**

The repurchase agreements have maturity periods between 1-62 days (31 December 2013: 2-414). The Group has applied interest rates of 0.25%-0.78% for foreign currency, 6.00%-10.20% for Turkish Lira agreements (31 December 2013: 0.25%-1.35% for foreign currency, 4.50%-7.07% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 234 (2013: TL 605).

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

18. FUNDS BORROWED

	31 December 2014	31 December 2013
Short-term funds	595,067	670,990
Short-term portion of medium and long-term funds	1,049,670	730,699
Medium and long-term funds	8,568,195	7,723,348
Total	**10,151,582**	**9,125,037**

	31 December 2014	31 December 2013
Foreign currencies	9,923,663	9,050,762
Turkish Lira	227,919	74,275
Total	**10,151,582**	**9,125,037**

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

18. FUNDS BORROWED (continued)

31 December 2014

	Amount	Maturity (Min)	Maturity (Max)	Interest Rate (%) (Min)	Interest Rate (%) (Max)
Foreign Currency Borrowings					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	385,560		15.01.2020		0.58
-EFIL III	449,194		15.01.2021	0.54	0.58
-EFIL IV	638,188		15.07.2036	0.34	0.38
-IBRD SME	181,608		15.03.2021	0.21	0.38
-IBRD-Renewable Energy Loan	1,487,261	15.03.2017	15.06.2039	0.24	0.84
-IBRD EFIL IV Limit Arttırımı	661,080		15.12.2038	0.68	0.84
	3,802,891				
European Investment Bank (EIB)	2,802,248	15.03.2015	14.06.2027	0.23	1.99
Kreditanstalt Für Wiederaufbau (KFW)	853,876	31.05.2015	30.12.2032	0.18	3.35
Council of European Development Bank (CEB)	656,668	15.04.2015	17.12.2021	0.37	1.28
Association of French Development (AFD)	250,648	31.01.2017	01.10.2024	0.25	1.38
Promissory Note	54,812		05.06.2020		2.90
Domestic bank borrowings	208,464		02.01.2015	0.25	0.50
Syndicated Loan (*)	279,243		10.07.2015	0.95	0.98
European Bank for Reconstruction and Development EBRD	113,241		18.07.2017		2.30
Intesa	28,109		01.04.2015		1.38
Islam Development Bank (IDB)	501,884	19.02.2023	27.05.2029	2.72	3.95
International Finance Corporation	253,928	15.12.2018	15.12.2019	3.19	3.34
Credıt Suısse	57,855		17.01.2016		1.92
Doha Bank	51,315	24.03.2015	25.08.2015	1.35	1.83
Oyak Anker Bank Gmbh	8,481		10.07.2015		1.90
	6,120,772				
Total foreign currency borrowings	**9,923,663**				
Turkish Lira Borrowings					
Domestic bank borrowings	227,919	16.02.2015	30.03.2015		7.29
Total Turkish Lira borrowings	**227,919**				
Total	**10,151,582**				

(*) Within the framework of the decisions taken by the Board of Directors of the Bank, on 11 July 2014, the Bank has used a syndicated loan from international markets in two tranches amounting to USD 10 million and Euro 91 million with maturity of 10 July 2015 under the coordination of Commerzbank Aktiengesellschaft.

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

18. FUNDS BORROWED (continued)

31 December 2013

	Amount	Maturity (Min	Max)	Interest Rate (%) (Min	Max)
Foreign Currency Borrowings					
International Bank for Reconstruction and Development (IBRD)					
-Export Finance Intermediation Loan (EFIL) II	419,239		15.01.2020		0.65
-Export Finance Intermediation Loan (EFIL) III	497,750		15.01.2021	0.52	0.65
-Export Finance Intermediation Loan (EFIL) IV	1,248,065	15.07.2036	15.12.2038	0.32	0.84
-IBRD-Renewable Energy Loan (REL)	1,469,634	15.03.2017	15.06.2039	0.34	0.84
-IBRD-Small Medium Enterprises (SME)	208,410		15.03.2021	0.34	0.43
	3,843,098				
European Investment Bank (EIB)	2,518,502	15.03.2014	14.06.2027	0.39	3.59
Council of European Development Bank (CEB)	617,227	15.10.2014	15.11.2021	0.59	1.31
Kreditanstalt Für Wiederaufbau (KFW)(*)	590,155	30.11.2014	30.12.2032	0.29	3.05
Association of French Development (AFD)	301,794	31.01.2017	31.07.2021	0.25	0.74
Syndicated Loan(**)	296,350		08.07.2014	1.04	1.11
European Bank for Reconstruction and Development (EBRD)	147,702	18.01.2017	18.07.2017		2.33
Instituto de Credito Official	44,054	20.01.2014	03.04.2014	1.43	1.64
Intesa Trade Facility	259,446	02.01.2014	29.08.2024	0.30	6.35
Domestic bank borrowings	13,780		02.01.2014		0.45
International Finance Corporation	201,666	15.12.2018	15.12.2019	3.20	3.35
Islam Development Bank (IDB)(***)	216,988		19.02.2023		2.72
	5,207,664				
Total foreign currency borrowings	**9,050,762**				
Turkish Lira Borrowings					
Domestic bank borrowings	74,275	02.01.2014	21.02.2014	8.50	10.40
Total Turkish Lira borrowings	**74,275**				
Total	**9,125,037**				

(*) On 4 December 2012, the Bank has signed a loan agreement with Kreditanstalt für Wiederaufbau (KfW) for amounting to USD 125 million under the Tresuary quarantee. According to the agreement, USD 75 million has been withdrawn during 2013.

(**) Within the framework of the decisions taken by the Board of Directors of the Bank, on 3 July 2013, the Bank has used a syndicated loan from international markets in two tranches amounting to USD 15 million and Euro 90 million with maturity 8 July 2014 under the coordination of Commerzbank Aktiengesellschaft.

(***) On 4 December 2012, The Agreement of the Restricted Mudaraba financing possibility that provided from Islamic Development Bank has been signed with amounting to USD 100 million under the Treasury guarantee for the financing of renewable energy and energy efficiency project that will be held in Turkey.

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

19. DEBT SECURITIES ISSUED

	31 December 2014	31 December 2013
Marketable securities issued	806,750	-
Value difference of securities issued	(597)	-
Accrued interest on the bonds	7,671	-
Total	**813,824**	-

As of 27 October 2014, sales transactions on the issuance of bonds or similar securities amounting to maximum 750 million US Dollars in abroad is completed. The debt instruments have nominal value amounting to 350 million US Dollars, maturity of 30 October 2019 with fixed interest rate and five year maturity and semi-annual coupon payment with a rate of 5.375% (31 December 2013: None).

20. OTHER LIABILITIES

	31 December 2014	31 December 2013
Unearned revenue	61,215	58,669
Payables to clearing accounts	12,991	16,524
Guarantees given	10,409	1,388
Deposits and advances taken for imports	630	1,696
Other	3,444	4,888
Total	**88,689**	**83,165**

21. TAXATION

Corporate Tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2014 (31 December 2013: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

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.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2014 is 20% (31 December 2013: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

21. TAXATION (continued)

Corporate Tax (continued)

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The effective tax rate has been taken as 20% in 2014 (31 December 2013: 20%).

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Deferred Tax

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

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

21. TAXATION (continued)

Deferred Tax (continued)

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2013: 20%) is used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

a) Statement of financial position:

	31 December 2014	31 December 2013
Corporate tax provision	120,210	58,256
Corporate tax paid in advance	(87,820)	(40,119)
Corporate tax liability	**32,390**	**18,137**

b) Statement of Profit or Loss:

	31 December 2014	31 December 2013
Corporate tax expense	120,210	58,256
Deferred tax (income) / expense	(21,900)	16,287
	98,310	**74,543**

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	31 December 2014	31 December 2013
Loan commissions	12,365	11,771
Impairment losses on loans	6,608	6,081
Accruals on derivative financial instruments	-	3,597
Reserve for employee severance indemnity and unused vacation provision	1,875	1,712
Valuation of marketable securities	-	96
Others	5,194	459
Total deferred tax asset	**26,042**	**23,716**
Valuation of marketable securities	(11,259)	(5,510)
Borrowing commissions	(5,340)	(3,111)
Accruals on derivative financial instruments	(253)	-
Useful life differences on property and equipment	(227)	(118)
Others	(23)	-
Total deferred tax liability	**(17,102)**	**(8,739)**

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

21. TAXATION (continued)

Deferred Tax (continued)

Reflected as:

	31 December 2014	31 December 2013
Deferred tax assets	26,042	23,716
Deferred tax liabilities (-)	(17,102)	(8,739)
Total deferred tax assets, net	**8,940**	**14,977**

Taxation can be reconciled to the profit per the income statement as follows:

	31 December 2014	31 December 2013
Reconciliation of Taxation		
Income before taxation	494,777	408,734
Tax at the statutory income tax rate of 20%	(98,955)	(81,747)
Tax effect of income that is deductible in determining taxable income	3,008	3,155
Tax effect of undeductable expenses	(7,619)	(4,276)
Tax effect of dividend income	4,549	5,684
Tax effect of other deductions	707	1,641
Income tax expense	**(98,310)**	**(74,543)**

Movements in temporary differences for the years ended 31 December 2014 and 2013 are as follows:

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2014				
Loan commissions	11,771	594	-	12,365
Impairment losses on loans	6,081	527	-	6,608
Reserve for employee severance indemnity and unused vacation provision	1,712	30	133	1,875
Valuation of marketable securities	(5,414)	22,225	(28,070)	(11,259)
Useful life differences on property and equipment	(118)	(109)	-	(227)
Borrowing commissions	(3,111)	(2,229)	-	(5,340)
Accruals on derivative financial instruments	3,597	(3,850)	-	(253)
Other	459	4,712	-	5,171
Net deferred tax asset / (liability)	**14,977**	**21,900**	**(27,937)**	**8,940**

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

21. TAXATION (continued)

Deferred Tax (continued)

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2013				
Loan commissions	11,496	275	-	11,771
Impairment losses on loans	6,335	(254)	-	6,081
Reserve for employee severance indemnity and unused vacation provision	1,778	29	(95)	1,712
Valuation of marketable securities	(14,584)	(20,910)	30,080	(5,414)
Useful life differences on property and equipment	(40)	(78)	-	(118)
Borrowing commissions	(2,395)	(716)	-	(3,111)
Accruals on derivative financial instruments	(2,004)	5,601	-	3,597
Other	693	(234)	-	459
Net deferred tax asset / (liability)	**1,279**	**(16,287)**	**29,985**	**14,977**

22. EMPLOYEE BENEFITS

	2014	2013
Movement of reserve for employee severance indemnity		
Balance at 1 January	7,122	7,769
Interest cost	753	607
Service cost	789	622
Loss/(Gain) due to Settlements / Reductions / Terminations	910	139
Payment during the year	(2,205)	(1,388)
Actuarial difference	563	(627)
Balance at 31 December	**7,932**	**7,122**
Movement of provision for unused vacations		
Balance at 1 January	1,554	1,217
Provision for the year	-	337
Provisions released	(13)	-
Balance at 31 December	**1,543**	**1,554**
Movement of provision for bonus payments		
Balance at 1 January	6,596	6,248
Provision for the year	7,582	6,596
Bonus paid	(6,533)	(6,586)
Income and expenses of the prior period	257	338
Balance at 31 December	**7,902**	**6,596**
Employee benefits	**17,377**	**15,272**

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

22. EMPLOYEE BENEFITS (continued)

a) Pension scheme

The Group has established two pension schemes, which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group's assets in the Pension Funds. These schemes are valued by independent actuaries every year. As per the latest actuarial valuation carried out as at 31 December 2014, the Bank has no obligation to book any provision for the Pension Funds. For additional information, please see note 3.23 Employee Benefits.

b) Reserve for employee severance indemnity

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days pay maximum full TL 3,438 as at 31 December 2014 (31 December 2013: full TL 3,254) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	2014	2013
Interest rate	10.06%	11.10%
Expected rate of increase in salaries and eligible ceiling	8.17%	7.40%
Discount rate	1.75%	3.44%

23. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting to US Dollar 50,000. As at 31 December 2014, carrying value of subordinated loan is TL 116,065 (31 December 2013: TL 106,759).

The date of the loan contract is 21 September 2004 and the first usage date was 5 November 2004. The interest rate of the subordinated loan is Libor 0.32+ 3.00%; which corresponds to 3.32% as at the reporting date. Total repayment of principal of the subordinated loan will be on 15 October 2016 as a whole.

24. PAYABLES TO STOCK EXCHANGE MONEY MARKET

	31 December 2014	31 December 2013
Payables to stock exchange money market	110,219	251,313
Total	**110,219**	**251,313**

Payables to stock exchange money markets have a maturity of 2-22 days (31 December 2013: 2-31 days) with between 10.05% and 10.70% (31 December 2013: between 7.90% and 8.80%) of interest rates.

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

25. CAPITAL AND RESERVES

Share Capital

As at 31 December 2014, the authorized and issued capital consists of 1,500,000,000 shares of 1 Turkish Lira each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

31 December 2014	%	Authorized Capital	Paid-In Capital
Shareholders			
T. İş Bankası AŞ	50.00	750,002	750,002
T. Vakıflar Bankası T.A.O.	8.38	125,662	125,662
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.62	624,336	624,336
	100.00	**1,500,000**	**1,500,000**
Components of Capital:			
Nominal capital		1,500,000	1,500,000
Effect of inflation		13,563	13,563
		1,513,563	**1,513,563**

31 December 2013	%	Authorized Capital	Paid-In Capital
Shareholders			
T. İş Bankası AŞ	50.00	650,001	650,001
T. Vakıflar Bankası T.A.O.	8.38	108.907	108.907
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.62	541.092	541.092
	100.00	**1,300,000**	**1,300,000**
Components of Capital:			
Nominal capital		1,300,000	1,300,000
Effect of inflation		13,563	13,563
		1,313,563	**1,313,563**

In the current period, in the meeting of the General Assembly held on 27 March 2014, it has been resolved that, paid-in capital of the Bank would be increased from TL 1.300.000 to TL 1.500.000 by TL 200.000. In respect of the resolution of the General Assembly, this increase would be incorporated from the profit of the year 2013. The increase in paid-in capital was approved by the BRSA on 16 April 2014 and has been published in the Turkish Trade Registry Gazette No: 8573 on 21 May 2014.

In the prior period, in the meeting of the General Assembly held on 26 March 2013, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.100.000 to TL 1.300.000 by TL 200.000. In respect of the resolution of the General Assembly, TL 168.000 of this increase will be incorporated from the profit of the year 2012; TL 32.000 of this increase will be incorporated from extraordinary reserves. The increase in paid-in capital was approved by the BRSA on 3 May 2013, and has been published in the Turkish Trade Registry Gazette No: 8351 on 27 June 2013.

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

25. CAPITAL AND RESERVES (continued)

Legal reserves

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

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Dividends

At the Ordinary General Assembly of the Parent Bank held on 27 March 2014, it was decided to distribute a dividend of TL 65,000 to shareholders and TL 7,581 to personnel, members of Board of Directors and to allocate TL 17,061 to legal reserves from retained earnings.

Non-controlling interests

As at the reporting date the non-controlling interests are as follows:

	31 December 2014	31 December 2013
Capital	50,772	56,902
Share premium	180	205
Fair value reserve	139	2
Legal reserve	120	110
Retained earnings	15,677	27,005
Current period net income	565	(8,739)
	67,453	**75,485**

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

26. OTHER OPERATING INCOME

	1 January-31 December 2014	1 January-31 December 2013
Gain on sale of assets	11,097	854
Rent income	7,810	7,648
Provisions released	2,115	6,029
Increase in value of investment properties	-	4,220
Other	2,890	4,030
	23,912	**22,781**

27. DIVIDEND INCOME

	1 January-31 December 2014	1 January-31 December 2013
Trading securities	530	109
Available-for-sale securities	1,970	8,912
Other	7,204	6,694
	9,734	**15,715**

28. OTHER OPERATING EXPENSES

	1 January-31 December 2014	1 January-31 December 2013
Personnel expenses	78,051	66,526
Depreciation, impairment and amortisation	15,233	38,562
Other administrative expenses	25,972	23,960
Marketing expenses	1,048	1,469
Taxes and dues other than on income	388	834
Other (*)	39,898	9,255
	160,590	**140,606**

(*) The tax and penalty notices related to the decision of the tax court of first instance against the Bank are accrued by administration depending on legal process and as of 31 July 2014 the Bank has made total payments amounting to TL 22,091.

29. 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 Board of Directors (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.

For management purposes, the Group is currently organized into two operating divisions – "banking" and "stock brokerage and other". These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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

29. SEGMENTS REPORTING (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 31 December 2014)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	801,367	27,256	828,623	(8,705)	819,918
Interest expense	(255,135)	(44,865)	(300,000)	8,705	(291,295)
Net interest income	**546,232**	**(17,609)**	**528,623**	**-**	**528,623**
Net fee and commission income	11,164	18,336	29,500	-	29,500
Net securities trading income / (loss)	(1,605)	891	(714)	-	(714)
Net derivative trading income / (loss)	(66,817)	19,928	(46,889)	-	(46,889)
Net foreign currency gains / (losses)	83,047	5,794	88,841	-	88,841
Impairment losses on financial assets	(4,050)	(726)	(4,776)	-	(4,776)
Net operating income after impairment losses	**567,971**	**26,614**	**594,585**	**-**	**594,585**
Other operating income	15,698	16,542	32,240	(8,328)	23,912
Other operating expenses	(114,276)	(42,595)	(156,871)	(3,719)	(160,590)
Dividend income	23,568	530	24,098	(14,364)	9,734
Share of profit of equity-accounted investees	27,136	-	27,136	-	27,136
Profit before income tax	**520,097**	**1,091**	**521,188**	**(26,411)**	**494,777**

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

29. SEGMENT REPORTING (continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 31 December 2013)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	637,646	26,086	663,732	(6,242)	657,490
Interest expense	(151,309)	(30,835)	(182,144)	6,242	(175,902)
Net interest income	**486,337**	**(4,749)**	**481,588**	**-**	**481,588**
Net fee and commission income	10,705	17,162	27,867	-	27,867
Net securities trading income / (loss)	3,625	766	4,391	-	4,391
Net derivative trading income / (loss)	(8,554)	(37,805)	(46,359)	-	(46,359)
Net foreign currency gains / (losses)	(7,911)	25,144	17,233	-	17,233
Impairment losses on financial assets	(5,578)	(273)	(5,851)	-	(5,851)
Net operating income after impairment	**478,624**	**245**	**478,869**	**-**	**478,869**
Other operating income	5,045	49,756	54,801	(32,020)	22,781
Other operating expenses	(73,195)	(73,357)	(146,552)	5,946	(140,606)
Dividend income	30,315	2,180	32,495	(16,780)	15,715
Share of profit of equity-accounted investees	31,975	-	31,975	-	31,975
Profit before income tax	**472,764**	**(21,176)**	**451,588**	**(42,854)**	**408,734**

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

29. SEGMENT REPORTING (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
At 31 December 2014					
Total assets	**15,730,635**	**870,026**	**16,600,661**	**(399,369)**	**16,201,292**
Total liabilities	**13,204,434**	**583,577**	**13,788,011**	**(187,321)**	**13,600,690**
Equity before net profit & non-controlling interests	2,131,792	285,116	2,416,908	(279,661)	2,137,247
Net profit attributable to equity holders of the Bank	394,409	1,333	395,742	160	395,902
Non-controlling interests	-	-	-	67,453	67,453
Total equity	**2,526,201**	**286,449**	**2,812,650**	**(212,048)**	**2,600,602**
Total liabilities and equity	**15,730,635**	**870,026**	**16,600,661**	**(399,369)**	**16,201,292**
At 31 December 2013					
Total assets	**12,963,171**	**861,144**	**13,824,315**	**(381,854)**	**13,442,461**
Total liabilities	**10,872,142**	**579,331**	**11,451,473**	**(176,383)**	**11,275,090**
Equity before net profit & non-controlling interests	1,724,437	303,335	2,027,772	(278,816)	1,748,956
Net profit attributable to equity holders of the Bank	366,592	(21,522)	345,070	(2,140)	342,930
Non-controlling interests	-	-	-	75,485	75,485
Total equity	**2,091,029**	**281,813**	**2,372,842**	**(205,471)**	**2,167,371**
Total liabilities and equity	**12,963,171**	**861,144**	**13,824,315**	**(381,854)**	**13,442,461**

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

30. RELATED PARTIES

For the purposes of the accompanying consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying consolidated financial statements include the following balances due from or due to related parties:

	31 December 2014	31 December 2013
Balances with related parties		
Loans and advances to customers	198,904	177,187
Non-cash loans	117,676	117,675
Loans and advances to banks	73,946	113,975
Available for sale investment securities	38,807	50,970
Other liabilities	4	21

	1 January-31 December 2014	1 January-31 December 2013
Transactions with related parties		
Income from associates	27,136	21,271
Dividend income	13,876	6,817
Interest income	10,733	3,205
Foreign exchange gain (loss), net	5,535	19,600
Net fee and commission income / (expense), net	679	115
Other income	226	738

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 10,762 (31 December 2013: TL 10,016).

31. COMMITMENTS AND CONTINGENCIES

	31 December 2014	31 December 2013
Swap and forward agreements	7,999,655	4,358,819
Revocable and irrevocable commitments	3,346,798	3,314,691
Letters of guarantee	956,972	1,015,387
Option agreements	1,486,931	804,760
Letters of credit	496,097	438,033
Other commitments	74,677	-
	14,361,130	**9,931,690**

31. COMMITMENTS AND CONTINGENCIES (continued)

Fiduciary Activities

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

As at 31 December 2014, the Group manages 6 mutual funds (2013: 8) which were established under the regulations of the CMB. In accordance with these regulations and the charters of the funds, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 3,669,853 as at 31 December 2014 (31 December 2013: TL 3,319,792). As at 31 December 2014, securities at custody with market value amounted to TL 4,701,738 (31 December 2013: TL 2,659,676).

Securites Blocked and Letters of Guarantee Given to BIST as Collateral for Trading on Markets

As at 31 December 2014, according to the general requirements of the BIST, letters of guarantee amounting to TL 25,518 (31 December 2013: TL 24,409) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 31 December 2014 there is TL 2,102 letters of guarantee were given to the Capital Markets Board (31 December 2013: 2,102).

The Group's trading securities given as collateral or blocked amounted to TL 7,878 at the reporting date (31 December 2013: TL 8,674).

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

There are 32 legal cases against the Group which are amounting to TL 1,162 as of the reporting date (31 December 2013: TL 855, 22 legal cases).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (Foundation) established in accordance with the decisions of Turkish Commercial Law and Civil Law as made to all Foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of Foundation worked at the time of payment, the amount Foundation members are obliged to pay shouldn't deduct from the basis of fee, accordingly tax audit report organized with a claim that it should be taken penalized income tax stoppage / penalized stump duty deducted from allowance and as of reporting date total amount of TL 17,325 tax and tax penalty notice relating to period in question to the Bank relying on this report. The Bank assesses that the Bank's practice is in compliance with the legislation and there is no legal basis for the the tax administration's suspended assessments, therefore, lawsuits have been filed against the subjected assessments in various tax courts in İstanbul, Ankara and İzmir.

31. COMMITMENTS AND CONTINGENCIES (continued)

Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Bank against the decision of the Court with respect to the Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Bank are accrued by administration depending on legal process and as of 31 July 2014 the Bank has made total payments amounting to TL 22.091.

There is a lawsuit for the cancellation of the licence of construction dated 16 July 2008 numbered 1120 given for the Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 and related zoning plan dated 6 November 2007 scaled 1/1000 and for motion for stay of execution against Pendik Municipality. TSKB GYO is also involved in the instant case and Istanbul 9th Administrative Court ordered the cancellation of the licence and zoning plan with a right of appeal. As a result of the appeal, Council of State also approved the resolution of the Court on 1 December 2011. The request about revision of decision relating to decision of approval has been disallowed by the Council of State on 24 April 2013 and domestic remedies about the lawsuit are exhausted.

In addition, seeking the cancellation of the 1/1000 scaled zoning plan dated 6 November 2007 by the decision of 9th Administrative Court, the plaintiff also filed a lawsuit against Pendik Municipality on the Istanbul 3rd Administrative Court ("the Court") in order to demand grant a stay of execution suspending the cancellation of the construction and occupancy permits dated 4 December 2009 numbered 101 and 14 December 2009 dated 104 numbered given for Pendorya Mall. The Court issued a stay of execution on 31 December 2010 regarding related occupancy permits and the Court decided on 22 September 2011 to set aside the decision of the case on the basis of that cancellation of the construction licence dated 16 July 2008 numbered 1120 given to TSKB GYO for Pendorya Mall with 4 November 2010 dated resolution is due to the cancellation of 1/1000 scaled Zoning Plan. TSKB GYO, involved in the position to demand the motion for stay of execution of the mentioned cancellation resolution of the Court and has presented the petition of appeal to the Council of State on 4 November 2011. The request for the cancellation of the execution has been rejected on 16 January 2012. The Council of State also approved the resolution of the Court on 29 May 2013. The request adjustment about decision of approval is presented to the Court on 5 November 2013 and answer of petition has been waited.

Development functions and construction conditions of the real estates (land use decisions) are permitted by the Zoning Plan. New 1/5000 scaled, 25 December 2010 dated Zoning Plan for the area where Pendorya is located, has become effective. According to the New 1/5000 scaled Zoning Plan, the related real estate's function has been preserved.

In accordance with the new Zoning Plan, 1/1000 scaled Zoning Plan has been prepared by Pendik Municipality and approved by the Pendik Municipality Council at 7 October 2011. Subsequent to the approval of 1/1000 scaled Zoning Plan by the Istanbul Metropolitan Municipality ("IBB"), the Pendorya Mall's both construction licence and occupancy permit renewal application will be made. The new 1/5000 scaled Zoning Plan was approved by the Assembly of IBB on 12 April 2013 and entered into force was approved by the Presidency on 31 August 2013. Currently, Implementation Plan which is proper for new 1/5000 plan of 1/1000 scale has been expected to be prepared by subsequent to its approval of Pendik Municipality. Following the approval of the Country Council about the plans, the plans will be submitted to the Assembly of IBB.

Pendorya Mall was built in accordance with the 1/1000 scaled Zoning Plan that was in force at the date of construction and both construction licence and occupancy permits had been obtained in regular form at same date. Land amendment transactions are also completed accordingly. Land Registry records were still registered as a shopping center.

31. COMMITMENTS AND CONTINGENCIES (continued)

Therefore, it is not expected that there will be a problem relating with the existing construction licence, new licence demand or operations of Pendorya Mall. As well as uncertainties about conclusion of lawsuits prevail as of report date, TSKB GYO management does not expect a conclusion that affects financial statements significantly, therefore the accompanying financial statements do not include probable effects of these lawsuits.

Plaintiff ultimately filed a lawsuit against IBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as interventing party.

Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. IBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from "Possessory Actions" and converted to the "Confiscating without expropriating" by the judge.

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. Following the notification of the decision, the appeal process will start.

Other

The Group's 1 head office and 13 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 29 cars are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2013: 1 head office, 15 branches and 24 cars are subject to operational leasing).

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

32. DERIVATIVE FINANCIAL INSTRUMENTS

	2014 Assets	2014 Liabilities	2013 Assets	2013 Liabilities
Currency swaps	38,980	(30,169)	6,230	(13,165)
Options	21,156	(20,935)	22,202	(22,848)
Foreign currency forward contracts	119	(333)	2,796	(11,489)
Interest rate swaps	14,619	(12,139)	9,459	(10,355)
	74,874	**(63,576)**	**40,687**	**(57,857)**

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, US Dollar and Euro.

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	31 December 2014	31 December 2013
Forward foreign exchange contracts – buy	24,884	294,481
Forward foreign exchange contracts – sell	24,862	302,823
Currency swaps – buy	1,425,455	622,897
Currency swaps – sell	1,351,494	628,598
Interest rate swaps – buy	2,586,480	1,255,010
Interest rate swaps – sell	2,586,480	1,255,010
Currency option – buy	744,518	392,786
Currency option – sell	742,413	393,484
Interest option – buy	-	9,245
Interest option – sell	-	9,245
Other – sell	74,677	-

33. DIVIDENDS

In March 2014, dividends amounting to TL 72,581 were paid to shareholders, personnel and member of Board of Directors. In March 2013, the dividends paid were TL 67,296.

34. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The consolidated financial statements include holdings in unlisted shares which are measured at their historical costs as fair values could not be determined reliably.

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

34. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

31 December 2014	Total	Level 1	Level 2	Level 3
Financial Assets				
Trading assets	**20,543**	**18,480**	**2,063**	-
Government bonds and Treasury bills	*7,887*	*7,887*	-	-
Equity shares	*2,388*	*2,388*	-	-
Mutual funds	*304*	*304*	-	-
Debt securities issued by corporations	*9,964*	*7,901*	*2,063*	-
Derivative assets	**74,874**	-	**74,874**	-
Available for sale investment securities	**3,520,426**	**2,569,696**	**923,763**	**26,967**
Government bonds and Treasury bills	*2,491,044*	*2,491,044*	-	-
Eurobonds	*530,019*	-	*530,019*	-
Equity shares	*38,577*	*11,610*	-	*26,967*
Debt securities issued by corporations	*460,786*	*67,042*	*393,744*	-
Financial Liabilities				
Derivative liabilities	**63,576**	-	**63,576**	-

31 December 2013	Total	Level 1	Level 2	Level 3
Financial Assets				
Trading assets	**19,561**	**19,561**	-	-
Government bonds and Treasury bills	*8,717*	*8,717*	-	-
Equity shares	*988*	*988*	-	-
Mutual funds	*209*	*209*	-	-
Debt securities issued by corporations	*9,647*	*9,647*	-	-
Derivative assets	*40,687*	-	*40,687*	-
Available for sale investment securities	**2,976,196**	*2,125,024*	*807,834*	*43,338*
Government bonds and Treasury bills	*1,996,493*	*1,996,493*	-	-
Eurobonds	*332,811*	-	*332,811*	-
Equity shares	*54,167*	*10,829*	-	*43,338*
Debt securities issued by corporations	*592,725*	*117,702*	*475,023*	-
Financial Liabilities				
Derivative liabilities	**57,857**	-	**57,857**	-

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2014 and 31 December 2013 is as follows:

	31 December 2014	31 December 2013
Balance at the beginning of the year	43,338	24,774
Purchases	7,875	18,564
Redemption or sales	(24,246)	-
Closing balance	**26,967**	**43,338**

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

34. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2014	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Assets					
Interbank money market placements	-	-	*104,913*	*104,913*	*104,913*
Funds lent under repurchase agreements	-	-	*293*	*293*	*293*
Loans and advances to customers	-	*10,903,295*	-	*10,903,295*	*10,852,263*
Liabilities					
Obligation under repurchase agreements	-	-	*2,162,494*	*2,162,494*	*2,162,494*
Funds borrowed and subordinated loans	-	-	*10,267,647*	*10,267,647*	*10,267,647*
Debt securities issued	*832,727*	-	-	*832,727*	*813,824*
Payables to stock exchange money market	-	-	*110,219*	*110,219*	*110,219*
Current account of loan customers	-	-	*39,081*	*39,081*	*39,081*

31 December 2013	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Assets					
Interbank money market placements	-	-	*50*	*50*	*50*
Loans and advances to customers	-	*9,207,837*	-	*9,207,837*	9,060,422
Liabilities					
Obligation under repurchase agreements	-	-	*1,604,891*	*1,604,891*	*1,604,891*
Funds borrowed and subordinated loans	-	-	*9,231,796*	*9,231,796*	*9,231,796*
Payables to stock exchange money market	-	-	*251,313*	*251,313*	*251,313*
Current account of loan customers	-	-	*5,954*	*5,954*	*5,954*

Loans and Receivables

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

Funds borrowed

Management has estimated that the fair value of certain funds borrowed recorded at amortised cost that are of a contractual nature, are not materially different than their carrying values. Management believes that the carrying values of these particular financial liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

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

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

35. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

A summary of the weighted average number of shares outstanding for the year ended 31 December 2014 and 31 December 2013 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 31 December 2014	**1 January – 31 December 2013**
Number of shares outstanding at 1 January	1,300,000,000	1,100,000,000
New shares issued		
Conversion of existing reserves (*)	200,000,000	200,000,000
Number of shares outstanding at the period end	**1,500,000,000**	**1,300,000,000**
Weighted average number of shares during the period (*)	**1,500,000,000**	**1,300,000,000**
Net profit (TL)	396,467	334,191
Basic and diluted earnings per share (in full TL)	**0.2643**	**0.2571**

(*) Capital increase is made through internal resources and prior period's earnings per share figure is revised by using the number of shares subsequent to the capital increase.

36. EVENTS AFTER THE REPORTING PERIOD

None.