

**TÜRK EKONOMİ BANKASI
ANONİM ŞİRKETİ**

**INTERIM CONSOLIDATED
CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2014**

REPORT ON REVIEW OF INTERIM CONSOLIDATED CONDENSED FINANCIAL INFORMATION

To the Board of Directors of Türk Ekonomi Bankası A.Ş.

Introduction

1. We have reviewed the accompanying interim consolidated condensed balance sheet of Türk Ekonomi Bankası A.Ş., and its subsidiaries (together referred to as the “Group”) as of 30 June 2014 and the related interim consolidated condensed statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim consolidated condensed financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim consolidated condensed financial information based on our review.

Scope of Review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated condensed financial information has not been prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM
Partner

Istanbul, 21 August 2014

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TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

INTERIM CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

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

	Notes	30 June 2014 (Reviewed)	31 December 2013 (Audited)
ASSETS			
Cash and balances with central banks		8,529,983	6,982,809
Loans and receivables due from banks		2,587,375	2,008,553
Other money market placements		630,382	245
Financial assets at fair value through profit and loss		585,461	1,384,117
Derivatives used for hedging purposes		70,611	112,245
Available-for-sale financial assets		3,922,853	4,408,885
Loans and receivables		40,548,242	37,464,109
Remeasurements adjustment on interest rate risk hedged portfolios		15,004	3,404
Held-to-maturity investments		308,050	292,956
Factoring receivables		877,210	1,093,443
Premises and equipment		315,397	332,957
Intangible assets		52,846	55,700
Goodwill		420,645	420,645
Deferred tax asset		186,171	116,617
Other assets		1,430,816	1,132,341
Total assets		60,481,046	55,809,026
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks		1,778,907	1,635,572
Customers' deposits		37,070,437	33,897,574
Other money market deposits		1,179,883	1,062,443
Financial liabilities at fair value through profit and loss		370,707	482,831
Derivatives used for hedging purposes		215,918	69,438
Factoring payables		7,629	8,012
Marketable securities issued	5	634,270	710,276
Funds borrowed:			
- Subordinated debt		1,753,148	1,770,856
- Other funds borrowed		8,607,148	8,010,241
Other liabilities		2,537,655	2,125,541
Provisions		244,513	197,194
Income taxes payable		32,624	15,168
Total liabilities		54,432,839	49,985,146
EQUITY			
Equity attributable to equity holders of the parent		6,041,518	5,815,890
Share capital issued		2,204,390	2,204,390
Premium in excess of par		2,565	2,565
Adjustment to share capital		200,262	200,262
Unrealized (losses)/gains on available-for-sale investments, net of tax		(47,029)	(102,440)
Reserve for hedging funds		(80,561)	32,185
Remeasurements on employee benefits		(7,105)	8,354
Other reserves and retained earnings		3,768,996	3,470,574
		6,041,518	5,815,890
Non-controlling interest		6,689	7,990
Total equity		6,048,207	5,823,880
Total liabilities and equity		60,481,046	55,809,026

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

INTERIM CONSOLIDATED CONDENSED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2014

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

Notes	1 January – 30 June 2014 (Reviewed)	1 January – 30 June 2013 (Reviewed)
Interest income		
Interest on loans and receivables	2,278,668	1,810,374
Interest on securities	229,409	167,044
Interest on due from banks	44,088	29,409
Interest on other money market placements	9,251	7,241
Interest income on hedging derivatives	164,430	41,853
Total interest income	2,725,846	2,055,921
Interest expense		
Interest on customer deposits	(1,117,169)	(792,372)
Interest on other money market deposits	(81,726)	(12,080)
Interest on marketable securities issued	(28,048)	(18,204)
Interest on funds borrowed and deposits from other banks	(134,678)	(110,893)
Interest on hedging derivatives	(156,650)	(86,565)
Total interest expense	(1,518,271)	(1,020,114)
Net interest income	1,207,575	1,035,807
Fees and commissions and other operating income		
Fees and commissions income	658,044	504,543
Fees and commissions expenses	(242,593)	(175,323)
Net (loss) /gain on financial instruments at fair value through profit or loss	(156,790)	38,642
Net gain on investment securities	19,416	95,893
Net losses from other activities	(47,267)	(29,297)
Net banking income	1,438,385	1,470,265
Operating expenses		
Salaries and employee benefits	(486,712)	(420,571)
Other operating expenses	(308,077)	(278,425)
Depreciation and amortization	(54,454)	(40,014)
Taxes other than on income	(42,150)	(41,224)
Gross operating income	546,992	690,031
Provisions for impairment of loan, factoring receivables, net of recoveries	(163,422)	(167,075)
Net operating income	383,570	522,956
Gains on sale of fixed assets, net	1,520	1,153
Profit from operating activities before income tax	385,090	524,109
Income tax – current	(133,955)	(29,975)
Income tax – deferred	51,670	(71,849)
Net profit for the period from continuing operations	302,805	422,285
Attributable to :		
Equity holders of the Parent	302,604	421,416
Non-controlling interest	201	869
Net profit	302,805	422,285
Earnings per share (full TL)	0.1374	0.1916

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ**INTERIM CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2014**

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

	1 January - 30 June 2014 (Reviewed)	1 January - 30 June 2013 (Reviewed)
Profit for the period	302,805	422,285
Other comprehensive income		
Fair value gains on available-for-sale financial assets, net of tax	55,432	(141,826)
Net change in fair values	69,713	(80,156)
Net amount transferred to income	(14,281)	(61,670)
Cash flow hedge (Effective portion of changes in fair value), net of tax	(112,746)	40,005
Currency translation differences	(4,182)	15,624
Remeasurements on employee benefits	(15,459)	14,103
Other comprehensive (loss)/income for the period, net of tax	(76,955)	(72,094)
Total comprehensive income for the period	225,850	350,191
Attributable to:		
Equity holders of the Parent	225,628	349,452
Non-controlling interest	222	739
Total comprehensive income for the period	225,850	350,191

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

**INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD ENDED 30 JUNE 2014**

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

	Attributable to equity holders of the Parent											Non- controlling Interest	Total equity
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Other capital reserves	Unrealized gains/(losses) on available-for-sale investments, net of tax	Reserve for hedging funds	Currency translation reserve	Remeasurements on employee benefits	Legal reserves and retained earnings	Total equity attributable to equity holders of the Parent		
At 1 January 2013		2,204,390	2,565	200,262	1,084,258	55,945	(49,666)	30,273	(10,967)	1,656,753	5,173,813	7,702	5,181,515
Dividend paid		-	-	-	-	-	-	-	-	-	-	(1,398)	(1,398)
Profit for the period		-	-	-	-	-	-	-	-	421,416	421,416	869	422,285
Other comprehensive income for the period		-	-	-	-	(141,696)	40,005	15,624	14,103	-	(71,964)	(130)	(72,094)
At 30 June 2013		2,204,390	2,565	200,262	1,084,258	(85,751)	(9,661)	45,897	3,136	2,078,169	5,523,265	7,043	5,530,308
At 1 January 2014		2,204,390	2,565	200,262	1,084,258	(102,440)	32,185	89,442	8,354	2,296,874	5,815,890	7,990	5,823,880
Dividend paid		-	-	-	-	-	-	-	-	-	-	(1,523)	(1,523)
Profit for the period		-	-	-	-	-	-	-	-	302,604	302,604	201	302,805
Other comprehensive income for the period		-	-	-	-	55,411	(112,746)	(4,182)	(15,459)	-	(76,976)	21	(76,955)
At 30 June 2014		2,204,390	2,565	200,262	1,084,258	(47,029)	(80,561)	85,260	(7,105)	2,599,478	6,041,518	6,689	6,048,207

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2014

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

	1 January- 30 June 2014 (Reviewed)	1 January- 30 June 2013 (Reviewed)
Cash flows from operating activities		
Interest received	2,836,723	1,767,317
Interest paid	(1,398,253)	(829,977)
Fees and commissions received	1,285,327	688,550
Trading income	(173,799)	8,612
Recoveries of impairment of loan, lease and factoring receivables	187,685	194,493
Fees and commissions paid	(242,593)	(175,323)
Cash payments to employees and other parties	(416,925)	(369,410)
Other operating activities	(394,943)	(425,052)
Income taxes paid	(117,257)	(104,445)
Cash flows from operating activities before changes in operating assets and liabilities	1,565,965	754,765
Changes in operating assets and liabilities		
Net decrease / (increase) in trading securities	532,639	(642,702)
Net increase in reserve deposits at central banks	(371,060)	(1,030,110)
Net decrease / (increase) in loans and receivables due from banks	146,204	(45,307)
Net increase in loans and receivables	(3,280,784)	(4,731,441)
Net decrease / (increase) in factoring receivables	212,356	(416,013)
Net (increase) / decrease in other assets	(284,018)	319,917
Net increase in deposits from other banks	142,978	468,611
Net increase in customers' deposits	3,106,797	2,386,214
Net increase in other money market deposits	116,589	1,023,744
Net (decrease) / increase in factoring payables	(383)	977
Net decrease in other liabilities	(438,104)	(649,015)
Net cash provided by operating activities	(116,786)	(3,315,125)
Cash flows from investing activities		
Purchases of available- for- sale securities	(2,702,008)	(4,735,484)
Proceeds from sale and redemption of available-for-sale securities	3,275,429	4,568,126
Proceeds from redemption of held to maturity securities	-	22,375
Purchases of property and equipment	(24,625)	(39,617)
Proceeds from the sale of premises and equipment	87	1,479
Purchases of intangible assets	(10,237)	(7,877)
Net cash provided by / (used in) investing activities	538,646	(190,998)
Cash flows from financing activities		
Proceeds from funds borrowed and debt securities	4,436,066	5,232,823
Repayment of funds borrowed and debt securities	(3,921,137)	(3,240,414)
Net cash provided by / (used in) financing activities	514,929	1,992,409
Effect of net foreign exchange difference on cash and cash equivalents	(3,581)	28,386
Net increase / (decrease) in cash and cash equivalents	2,499,173	(730,563)
Cash and cash equivalents at the beginning of the period	1,951,502	3,581,774
Cash and cash equivalents at the end of the period	4,450,675	2,851,211

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası Anonim Şirketi (“TEB” or “The Bank”), which had been a local bank incorporated in Kocaeli in 1927 under the name of Kocaeli Halk Bankası T.A.Ş., was acquired by the Çolakoğlu Group in 1982. Its title was changed as Türk Ekonomi Bankası A.Ş. and its headquarters moved to İstanbul. On 10 February 2005, BNP Paribas took over 50% of shares of TEB Holding A.Ş. Consequently, BNP Paribas became indirect shareholder of TEB with 42.125% ownership. In 2009 BNP Paribas Group successively acquired 75% of Fotis Bank Belgium and 66% of Fortis Bank Luxembourg and became the shareholder holding the majority of the shares of Fortis Bank Turkey. The indirect majority shareholders of TEB which are BNP Paribas and Çolakoğlu Group has agreed on the merge of TEB and Fortis Bank under the trademark of TEB and following the authorizations obtained from the regulatory authorities on 14 February 2011 the legal merge of two banks has been performed. Following the merger and related subsequent share transfers among shareholders, the shareholders’ structure and their respective ownerships are summarized below as of 30 June 2014 together with the comparative information as of 31 December 2013:

Name of shareholders	30 June 2014		31 December 2013	
	Paid in capital	%	Paid in capital	%
TEB Holding A.Ş. (previously TEB Mali Yatırımlar A.Ş.)	1,212,414	55.00	1,212,414	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	518,342	23.51
BNP Paribas Fortis Yatırımlar Holding A.Ş.	380,311	17.25	380,311	17.25
Publicly Traded	92,222	4.18	92,222	4.18
Other Shareholders	1,101	0.06	1,101	0.06
	2,204,390	100.00	2,204,390	100.00

As of 30 June 2014, the Bank’s paid-in-capital consists of 2,204,390,000 shares of TL 1.00 (full TL) nominal each.

The registered office address of TEB is TEB Kampüs C ve D Blok, Saray Mahallesi, Sokullu Caddesi, No: 7A-7B Ümraniye-İstanbul/Turkey.

For the purposes of the accompanying interim consolidated condensed financial statements, the Bank and its consolidated subsidiaries are referred to as the “Group”.

The interim consolidated condensed financial statements of the Group were authorized for issuance by the management on 21 August 2014. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

1. CORPORATE INFORMATION (Continued)

General (continued)

Nature of Activities of the Group

The operations of the Group consist of banking, factoring, securities brokerage and portfolio management, which are conducted mainly for local customers.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 30 June 2014 and 31 December 2013 are as follows:

	Place of Incorporation	Effective Shareholding And Voting Rights %	
		30 June 2014	31 December 2013
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.0	100.0
TEB Faktoring A.Ş.	Turkey	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	54.75	54.75
Stichting Effecten Dienstverlening	Netherlands	100.0	100.0
Kronenburg Vastgoed B.V.	Netherlands	100.0	100.0

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank – Commercial bank, which mainly deals in foreign trade finance, corporate banking, private banking and correspondent banking services.

TEB Yatırım – Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Faktoring – Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Portföy – Managing individual customer portfolios and mutual funds which consist of capital market instruments.

Stichting Effecten Dienstverlening – Operating under Economy Bank for holding securities of customers, located in the Netherlands.

Kronenburg Vastgoed B.V. – Real estate company founded for the purpose of the ownership of property possessed by Economy Bank in the Netherlands.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

2. BASIS OF PREPARATION

The interim consolidated condensed financial statements as of 30 June 2014 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statement and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2013.

In preparation of the interim condensed consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of 1 January 2014, noted below.

New and Revised International Financial Reporting Standards

a. The new standards, amendments and interpretations which are effective for the financial statements as of 30 June 2014

- i) IAS 32 (amendment), “Financial instruments: Presentation”, on offsetting financial assets and financial liabilities, is effective for annual periods beginning on or after 1 January 2014. The amendment updates the application guidance in IAS 32, ‘Financial instruments: Presentation’, to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- ii) IFRS 10, IFRS 12 and IAS 27 (amendments), “Consolidated financial statements”: ‘exceptions for the consolidation of subsidiaries’; is effective for annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an ‘investment entity’ definition and which display particular characteristics.
- iii) IAS 36 (amendments), “Impairment of assets” on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- iv) IAS 39 (amendments) “Financial Instruments: Recognition and Measurement” - “Novation of derivatives is effective for annual periods beginning on or after 1 January 2014. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.
- v) IFRYK 21 –IAS 37, “Levies” is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of IAS 37, ‘Provisions, contingent liabilities and contingent assets’. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

New and Revised International Financial Reporting Standards (continued)

b. The new standards, amendments and interpretations introduced to the prior Financial Statements as of 30 June 2014, however will be effective after 1 July 2014

- i) IAS 19 (amendment), “Defined benefit plans”, is effective for annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
- ii) Annual improvements 2012; is effective for annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards :
 - IFRS 2, “Share Based Payment”
 - IFRS 3, “Business Combination”
 - IFRS 8, “Operating Segments”
 - IFRS 13, “Fair value measurement”
 - IAS 16, “Tangible Assets and IAS 38, Intangible Assets”
 - IFRS 9, “Financial Instruments: IAS 37, Provisions, Contingent Assets and Liability”
 - IAS 39, “Financial Instruments-Recognition and Measurement”
- iii) Annual improvements 2013; is effective for annual periods beginning on or after 1 July 2014. The amendments include changes from 2011-12-13 cycle of the annual improvements project that affect 4 standards:
 - IFRS 1, “First Adoption of IFRS”
 - IFRS 3, “Business Combinations”
 - IFRS 13, “Fair Value Measurement”
 - IAS 40, “Investment Properties”
- iv) IFRS 11 (amendments), “Joint Arrangements”, is effective for annual periods beginning on or after 1 July 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
- v) IAS 16 and IAS 38 (amendments), “Tangible Assets”, “Intangible Assets”, is effective for annual periods beginning on or after 1 July 2016. In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- vi) IFRS 14, “Regulatory deferral accounts”, is effective for annual periods beginning on or after 1 July 2016. ‘Regulatory deferral accounts’ permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.
- vii) IFRS 15, “Revenue from contracts with customers”, is effective for annual periods beginning on or after 1 July 2017. The International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for IFRS and US GAAP. The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The new model employs an asset and liability approach, rather than current revenue guidance focuses on an ‘earnings processes.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

New and Revised International Financial Reporting Standards (continued)

b. The new standards, amendments and interpretations introduced to the prior Financial Statements as of 30 June 2014, however will be effective after 1 July 2014 (continued)

- viii) IFRS 9 “Financial instruments” - classification and measurement; is effective for annual periods beginning on or after 1 January 2018. This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, “financial instruments: Recognition and measurement”. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions.
- ix) Amendments to IFRS 9, “Financial instruments”, regarding general hedge, is effective for annual periods beginning on or after 1 January 2018. These amendments to IFRS 9, “Financial instruments”, bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

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

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

Impairment Testing

As a Group policy, the management performs impairment test for goodwill on an annual base. The recoverable amount of cash generating units, which is determined by discounting the future cash flows, exceeded the carrying amount of the cash generating units including goodwill. Accordingly no grounds were identified for impairment charge as of 31 December 2013.

Management believes that all of its management estimates and key assumptions which were used for impairment testing as of 31 December 2013 are still reasonable and there is no significant change in any of the key assumptions which would cause the carrying value materially to exceed its recoverable amount as of 30 June 2014.

3. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

None.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

4. SEGMENT INFORMATION

Business segments

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

As of and for the period ended 30 June 2014

	Retail Banking	Corporate Banking	Treasury/Head Office	Eliminations	Group
Net banking income	396,231	886,328	156,871	(1,045)	1,438,385
Dividend income	-	-	9,809	(9,809)	-
Revenues from other segments	-	-	-	-	-
Net banking income	396,231	886,328	166,680	(10,854)	1,438,385
Segment result (A)	79,100	496,322	(190,332)	-	385,090
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	79,100	496,322	(190,332)	-	385,090
Income tax	-	-	(82,285)	-	(82,285)
Net profit	79,100	496,322	(272,617)	-	302,805
Assets and Liabilities					
Segment assets	10,376,172	30,089,371	17,843,579	(233,951)	58,075,171
Unallocated assets	-	-	2,407,902	(2,027)	2,405,875
Total assets	10,376,172	30,089,371	20,251,481	(235,978)	60,481,046
Segment liabilities	21,941,223	17,705,841	12,027,277	(56,294)	51,618,047
Unallocated liabilities	-	-	2,815,396	(604)	2,814,792
Total liabilities	21,941,223	17,705,841	14,842,673	(56,898)	54,432,839
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	24,370
Intangible fixed assets	-	-	-	-	9,838
Depreciation	-	-	-	-	40,864
Amortization	-	-	-	-	12,481

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

4. SEGMENT INFORMATION (Continued)

Period ended 30 June 2013

	Retail Banking	Corporate Banking	Treasury/Head Office	Eliminations	Group
Net banking income	330,805	842,555	297,788	(883)	1,470,265
Dividend income	-	-	4,209	(4,209)	-
Revenues from other segments	-	-	-	-	-
Net banking income	330,805	842,555	301,997	(5,092)	1,470,265
Segment result (A)	74,610	451,273	2,435	(4,209)	524,109
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	74,610	451,273	2,435	(4,209)	524,109
Income tax	-	-	(101,824)	-	(101,824)
Net profit	74,610	451,273	(99,389)	(4,209)	422,285

Year ended 31 December 2013

Assets and Liabilities					
Segment assets	13,138,723	25,418,829	15,460,794	(267,580)	53,750,766
Unallocated assets	-	-	2,058,647	(387)	2,058,260
Total assets	13,138,723	25,418,829	17,519,441	(267,967)	55,809,026
Segment liabilities	19,480,939	15,479,074	12,775,154	(87,924)	47,647,243
Unallocated liabilities	-	-	2,338,290	(387)	2,337,903
Total liabilities	19,480,939	15,479,074	15,113,444	(88,311)	49,985,146

Period ended 30 June 2013

Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	39,617
Intangible fixed assets	-	-	-	-	7,877
Depreciation	-	-	-	-	33,047
Amortization	-	-	-	-	6,966

Geographical segments

The Group's geographical segments are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey.

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4. SEGMENT INFORMATION (Continued)

Period ended 30 June 2014	Turkey	European Union	Total
Other segment information			
Segment assets	56,466,503	1,608,668	58,075,171
Unallocated assets	2,389,451	16,424	2,405,875
Total assets	58,855,954	1,625,092	60,481,046
Capital expenditures			
Tangible fixed assets	21,108	3,262	24,370
Intangible fixed assets	8,912	926	9,838

Year ended 31 December 2013	Turkey	European Union	Total
Other segment information			
Segment assets	51,996,398	1,754,368	53,750,766
Unallocated assets	2,039,133	19,127	2,058,260
Total assets	54,035,531	1,773,495	55,809,026
Period ended 30 June 2013			
Capital expenditures			
Tangible fixed assets	39,617	-	39,617
Intangible fixed assets	7,549	328	7,877

5. EXPLANATIONS ON MARKETABLE SECURITIES ISSUED:

	30 June 2014	31 December 2013
Bank Bonds	634,270	507,046
Treasury Bills	-	203,230
Total	634,270	710,276

The bond issued by the Parent Bank on 4 March 2013 with a nominal value of TL99,711 maturity of 405 days, with due date of 14 April 2014, with an interest rate of 6.84908% and with an annual compound rate of 6.82406% has started to be publicly traded in bonds and bills markets with the ISIN code "TRSTEBK41416".

The bond issued by the Parent Bank on 7 October 2013 with a nominal value of TL350,000 maturity of 148 days, with due date of 5 March 2014, with an interest rate of 7.84266% and with an annual compound rate of 8.02640% has started to be publicly traded in bonds and bills markets with the ISIN code "TRQTEBK31411".

The bond issued by the Parent Bank on 9 December 2013 with a nominal value of TL250,000 maturity of 169 days, with due date of 28 May 2014, with an interest rate of 8.85178% and with an annual compound rate of 9.0626% has started to be publicly traded in bonds and bill market with the ISIN code "TRQTEBK51419".

The bond issued by the Parent Bank on 20 May 2013 with a nominal value of TL200,000 maturity of 386 days, with due date of 11 June 2014, with an interest rate of 5.81603% and with an annual compound rate of 5.80650% has started to be publicly traded in bonds and bill market with the ISIN code "TRSTEBK61414".

The bond issued by the Parent Bank on 14 March 2014 with a nominal value of TL278,941 maturity of 132 days, with due date of 23 July 2014, with an interest rate of 10.98568% and with an annual compound rate of 11.37477% has started to be publicly traded in bonds and bills markets with the ISIN code "TRQTEBK71417".

The bond issued by the Parent Bank on 21 April 2014 with a nominal value of TL182,222 maturity of 178 days, with due date of 17 October 2014, with an interest rate of 9.85057% and with an annual compound rate of 10.09933% has started to be publicly traded in bonds and bills markets with the ISIN code "TRSTEBKE1416".

The bond issued by the Parent Bank on 3 June 2014 with a nominal value of TL248,454 maturity of 176 days, with due date of 26 November 2014, with an interest rate of 9.10674% and with an annual compound rate of 9.32169% has started to be publicly traded in bonds and bills markets with the ISIN code "TRQTEBKK1418".

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NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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6. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of the Bank. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities including Fortis Bank Group are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the normal course of its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at period-ends and relating expense and income for the period are as follows:

30 June 2014:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	1,592	10	4,470,448	1,925,840	28,926	55,095	2,324	73,276	16,458,527	899	76,494	877	9,651
Others	3,356	392,380	-	567,202	18,580	-	274	4	519,257	1,017	20,399	7,541	10,084

31 December 2013:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income (*)	Interest Expense (*)	Other operating income (*)	Other operating expense (*)
Direct/Indirect shareholders	7,130	10	3,846,609	1,221,029	13,536	77,422	2,152	112,570	11,869,854	2,939	60,666	4,454	11,540
Others	11,504	376,434	-	672,711	40,726	1	239	9	664,232	2,013	9,680	4,945	7,446

(*) Figures indicate results as of 30 June 2013.

No provisions have been recognized in respect of loans given to related parties (31 December 2013: None).

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TL24,744 as of 30 June 2014 (30 June 2013: TL21,558) comprising mainly salaries and other short-term benefits.

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NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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7. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	30 June 2014	31 December 2013
Letters of guarantee issued	7,736,018	7,895,798
Letters of credit	1,456,871	1,688,889
Acceptance credits	106,622	271,178
Other guarantees	2,329,637	1,840,081
Total non-cash loans	11,629,148	11,695,946
Other commitments	8,734,155	8,003,295
Credit card limit commitments	3,958,669	3,545,841
Total	24,321,972	23,245,082

The Group has TL 217,897 (31 December 2013: TL 209,378) letters of guarantee obtained from other banks.

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 interim consolidated financial statements.

Investment fund participation certificates held in custody which belong to the customers and the portfolio are accounted for with their nominal values. As of 30 June 2014 the total nominal value and number of certificates in circulation and the stock are TL1,700,759 and 170,064,227 (31 December 2013: TL1,726,206 and 172,616,885) and the total fair value is TL 8,211,152 (31 December 2013: TL8,212,029)

The Group also manages forty five investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, 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.

Letters of Guarantee Given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of 30 June 2014, in line with the requirements of IGM, letters of guarantee amounting to TL 869 (31 December 2013: TL 873) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 30 June 2014, according to the general requirements of the ISE, letters of guarantee amounting to TL 31,420 (31 December 2013: TL 31,574) had been obtained from various local banks and were provided to ISE for bond and stock market transactions.

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. The Group has provided TL 36,324 (31 December 2013: TL 35,796) provision for legal cases.

Other

The branch premises that are leased under operational leases periods vary between 1 and 10 years and lease agreements are cancelable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

The inspection of the Competition Board that was conducted to determine whether 12 banks active in Turkey are in agreement and concerted practice in loan and credit card services sector and thus violated Article 4 of the Law on Protection of Competition, no 4054 was completed on March 8 2013. As a result of inspection, it has been agreed by a majority to impose an administrative fine of TL10,669 to the Parent Bank on the condition that the decision can be appealed against before Ankara Administrative Court.

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NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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

7. COMMITMENTS AND CONTINGENCIES (Continued)

Other (continued)

The penalty paid as TL 8,002 on 22 July 2013 as three fourths of the main penalty as per Article 17 of the Misdemeanors Law, no 5326, was paid on 16th August 2013. The Parent Bank filed the annulment action over the file no.2014/7E Ankara 2nd Administrative Court against the decision about the administrative fines imposed by Competition Board at Ankara Administrative Court on 19 September 2013 and the case has been continuing.

8. EARNINGS PER SHARE

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

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

	Opening	Cash	Increase Related to Merger	Transfers from Retained Earnings	Transfers From Revaluation Surplus	Reinvestment of Dividend Payments	Total	Closing
Before 1995	-	150	-	3,000	250	-	3,400	3,400
1996	3,400	-	-	-	330	1,270	1,600	5,000
1997	5,000	-	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	-	529	682	7,277	14,000	25,000
1999	25,000	-	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	-	110,250
2003	110,250	-	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	-	115,600
2006	57,800	18,700	-	-	-	-	18,700	76,500
2007	76,500	210,000	-	216,750	251,750	-	678,500	755,000
2008	755,000	345,000	-	-	-	-	345,000	1,100,000
2009	1,100,000	-	-	-	-	-	-	1,100,000
2010	1,100,000	-	-	-	-	-	-	1,100,000
2011	1,100,000	-	1,050,000	54,390	-	-	1,104,390	2,204,390
2012	2,204,390	-	-	-	-	-	-	2,204,390
2013	2,204,390	-	-	-	-	-	-	2,204,390
30 June 2014	2,204,390	-	-	-	-	-	-	2,204,390

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

	30 June 2014	30 June 2013
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	0.1374	0.1916
Weighted average number of ordinary shares (in millions) for basic earnings per share	2,204,390	2,204,390

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these consolidated financial statements.

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NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2014

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9. SUBSEQUENT EVENTS

Bonds issued by the Bank with ISIN code " TRQTEBK71417" on 14 March 2014 with a nominal value of TL 278,941 and a maturity of 132 days has matured on 23 July 2014.