TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying consolidated financial statements of Türk Ekonomi Bankası A.Ş. ("the Bank") and its subsidiaries which comprise the consolidated balance sheet as of 31 December 2014 and consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

2. 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.

Auditor's responsibility

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

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

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

Opinion

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Türk Ekonomi Bankası A.Ş. and its subsidiaries as of 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Zeynep Uras, SMMM
Partner

Istanbul, 20 February 2015

INDEX

	Page No.
Consolidated Balance Sheet	1
Consolidated Statement of Income	2
Consolidated Statement of Comprehensive Income	3
Consolidated Statement of Changes in Shareholders' Equity	4
Consolidated Statement of Cash Flows	5
Notes to the Consolidated Financial Statements	
1. Corporate Information	6
2. Summary of Significant Accounting Policies	8
3. Segment Information	23
4. Cash, Balances with Central Banks, Loans and Receivables Due From Banks and Other Money Market Placements	25
5. Financial Assets at FV through P&L and Investment Securities	26
6. Loans and Receivables	28
7. Factoring Receivables	31
8. Premises and Equipment	31
9. Intangible Assets	32
10. Goodwill	32
11. Other Assets	32
12. Deposits	33
13. Marketable Securities Issued	33
14. Funds Borrowed	34
15. Other Liabilities and Provisions	36
16. Income Taxes	38
17. Derivatives	40
18. Share Capital	41
19. Legal Reserves, Retained Earnings and Dividends Paid and Proposed	41
20. Earnings Per Share	42
21. Related Party Disclosure	43
22. Salaries and Employee Benefits	44
23. Other Operating Expenses	44
24. Net Gain or Loss on Financial Instruments at FV through P&L	44
25. Fees and Commissions Income and Expenses	44
26. Commitments and Contingencies	45
27. Financial Risk Management	46
28. Fair Value of Financial Instruments	56
29. Subsequent Events	58

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2014

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

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2014	31 December 2013
ASSETS			
Cash and balances with central banks	4	8,626,308	6,982,809
Loans and receivables due from banks	4	2,475,867	2,008,553
Other money market placements	4	550,207	245
Financial assets at fair value through profit and loss	5,17	687,736	1,384,117
Derivatives used for hedging purposes	17	60,800	112,245
Available-for-sale financial assets	5	4,488,271	4,408,885
Loans and receivables	6	44,357,770	37,464,109
Remeasurement adjustment on interest rate risk hedged portfolios		6,077	3,404
Factoring receivables	7	1,336,726	1,093,443
Held-to-maturity investments	5	317,360	292,956
Premises and equipment	8	326,119	332,957
Intangible assets	9	56,583	55,700
Goodwill	10	420,645	420,645
Deferred tax asset	16	181,154	116,617
Other assets	11	1,353,250	1,132,341
Total assets		**65,244,873**	**55,809,026**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks	12	1,329,597	1,635,572
Customers' deposits	12	39,059,233	33,897,574
Other money market deposits	12	1,756,987	1,062,443
Financial liabilities at fair value through profit and loss	17	448,658	482,831
Derivatives used for hedging purposes	17	313,870	69,438
Factoring payables		7,832	8,012
Marketable securities issued	13	991,583	710,276
Funds borrowed:			
- Subordinated debt	14	1,779,705	1,770,856
- Other funds borrowed	14	10,456,896	8,010,241
Other liabilities	15	2,293,576	2,125,541
Provisions	15	204,038	197,194
Income taxes payable	16	87,155	15,168
Total liabilities		**58,729,130**	**49,985,146**
EQUITY			
Equity attributable to owners of the parent		**6,508,353**	**5,815,890**
Share capital issued	18	2,204,390	2,204,390
Premium in excess of par		2,565	2,565
Adjustment to share capital	18	200,262	200,262
Unrealized gains/(losses) on available-for-sale investments, net of tax	19	(24,371)	(102,440)
Reserve for hedging funds, net of tax	19	(60,118)	32,185
Remeasurement on employee benefits		19,555	8,354
Other reserves	19	1,084,258	1,084,258
Retained earnings	19	3,081,812	2,386,316
Non-controlling interest		**7,390**	**7,990**
Total equity		**6,515,743**	**5,823,880**
Total liabilities and equity		**65,244,873**	**55,809,026**

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

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

CONSOLIDATED STATEMENT OF INCOME

	Notes	1 January-31 December 2014	1 January-31 December 2013
Interest income			
Interest on loans and receivables		4,803,199	3,712,389
Interest on securities		426,309	364,175
-Interest on available for sale		363,518	292,347
-Interest on held for trading		33,714	63,463
-Interest on held to maturity		29,077	8,365
Interest on loans and receivables due from banks		88,730	62,309
Interest on other money market placements		32,774	10,936
Interest on hedging derivatives		335,930	127,336
Other interest income		-	15
Total interest income		**5,686,942**	**4,277,160**
Interest expense			
Interest on customer deposits		(2,223,294)	(1,729,382)
Interest on other money market deposits		(138,125)	(44,518)
Interest on marketable securities issued		(55,521)	(32,288)
Interest on funds borrowed and deposits from other banks		(261,730)	(266,269)
Interest on hedging derivatives		(346,512)	(187,055)
Total interest expense		**(3,025,182)**	**(2,259,512)**
Net interest income		**2,661,760**	**2,017,648**
Fees and commissions and other operating income			
Fees and commissions income	25	1,409,569	1,057,283
Fees and commissions expenses	25	(512,336)	(383,105)
Net (loss)/gain on financial instruments at fair value through profit or loss	24	(382,931)	23,611
Net gain on available-for-sale financial assets		25,166	98,924
Net (loss) from other activities		(67,813)	(51,636)
Net banking income		**3,133,415**	**2,762,725**
Operating expenses			
Salaries and employee benefits	22	(989,894)	(860,853)
Other operating expenses	23	(658,034)	(584,436)
Depreciation and amortization	8,9	(112,970)	(85,441)
Taxes other than on income		(82,764)	(79,971)
Gross operating income		**1,289,753**	**1,152,024**
Provisions for impairment on loan and factoring receivables, net of recoveries	6,7	(406,513)	(351,841)
Net operating income		**883,240**	**800,183**
Gain/(loss) on sale of fixed assets, net		8,845	1,202
Profit from operating activities before income tax		**892,085**	**801,385**
Income tax – current	16	(246,967)	(66,319)
Income tax – deferred	16	64,109	(93,217)
Net profit for the year from continuing operations		**709,227**	**641,849**
Attributable to :			
Owners of the parent		708,319	640,121
Non-controlling interest		908	1,728
Net profit for the year		**709,227**	**641,849**
Basic earnings per share (full TL)	20	0.3217	0.2912
Diluted earnings per share (full TL)	20	0.3217	0.2912

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1 January- 31 December 2014	1 January- 31 December 2013
Net profit for the year	**709,227**	**641,849**
Items that are or may be reclassified to profit or loss	**(27,012)**	**(17,408)**
Fair value gains on available-for-sale financial assets, net of tax	78,114	(158,428)
Net change in fair values	87,827	(86,396)
Net amount transferred to income	(9,713)	(72,032)
Cash flow hedge (Effective portion of changes in fair value), net of tax	(92,303)	81,851
Currency translation differences	(12,823)	59,169
Items that will not be reclassified to profit or loss	**11,172**	**19,321**
Remeasurement on employee benefits, net of tax	11,172	19,321
Total comprehensive income for the year	**693,387**	**643,762**
Attributable to:		
Owners of the parent	692,463	642,077
Non-controlling interest	924	1,685
Total comprehensive income for the year	**693,387**	**643,762**

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

							Attributable to Owners 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, net of tax	Currency translation reserve	Remeasurement on employee benefits	Legal reserves and retained earnings	Total equity attributable to owners 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		-	-	-	-	-	-	-	-	-	-	(1,397)	(1,397)
Profit for the year		-	-	-	-	-	-	-	-	640,121	640,121	1,728	641,849
Total comprehensive income for the year		-	-	-	-	(158,385)	81,851	59,169	19,321	-	1,956	(43)	1,913
At 31 December 2013		**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**
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		-	-	-	-	-	-	-	-	-	-	(1,524)	(1,524)
Profit for the year		-	-	-	-	-	-	-	-	708,319	708,319	908	709,227
Total comprehensive income for the year		-	-	-	-	78,069	(92,303)	(12,823)	11,201	-	(15,856)	16	(15,840)
At 31 December 2014		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(24,371)**	**(60,118)**	**76,619**	**19,555**	**3,005,193**	**6,508,353**	**7,390**	**6,515,743**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	1 January-31 December 2014	1 January-31 December 2013
Cash flows from operating activities			
Interest received		5,520,700	3,701,277
Interest paid		(2,765,445)	(2,118,324)
Fees and commissions received		2,036,028	1,247,623
Trading income		(369,932)	(42,635)
Recoveries of impairment of loan, lease and factoring receivables		445,072	390,110
Fees and commissions paid		(512,336)	(383,105)
Cash payments to employees and other parties		(874,750)	(771,042)
Other operating activities		(817,384)	(825,177)
Income taxes paid	16	(172,218)	(117,592)
Cash flows from operating activities before changes in operating assets and liabilities		**2,489,735**	**1,081,135**
Changes in operating assets and liabilities			
Net decrease / (increase) in trading securities		565,077	(195,060)
Net increase in reserve deposits at central banks		(1,207,637)	(1,904,102)
Net decrease / (increase) in loans and receivables due from banks		68,846	(425,173)
Net increase in loans and receivables		(7,521,861)	(8,592,252)
Net increase in factoring receivables		(249,111)	(349,135)
Net (increase) / decrease in other assets		(162,265)	96,138
Net (decrease) / increase in deposits from other banks		(306,157)	704,624
Net increase in customers' deposits		5,104,841	4,879,912
Net increase in other money market deposits		693,070	1,021,229
Net (decrease) / increase in factoring payables		(180)	4,024
Net (decrease) / increase in other liabilities		(672,336)	18,160
Net cash used in operating activities		**(3,687,713)**	**(4,741,635)**
Cash flows from investing activities			
Purchases of available- for- sale securities	5	(3,905,754)	(6,909,289)
Proceeds from sale and redemption of available-for-sale securities	5	3,985,310	6,331,629
Proceeds from redemption of held to maturity securities	5	-	27,776
Purchases of property and equipment	8	(82,244)	(145,952)
Proceeds from the sale of premises and equipment		10,571	1,746
Purchases of intangible assets	9	(27,977)	(45,596)
Net cash used in investing activities		**(20,094)**	**(739,686)**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		10,370,882	6,933,321
Repayment of funds borrowed and debt securities		(7,674,964)	(4,231,281)
Net cash provided by financing activities		**2,695,918**	**2,702,040**
Effect of net foreign exchange difference on cash and cash equivalents		9,874	67,874
Net increase / (decrease) in cash and cash equivalents		1,487,720	(1,630,272)
Cash and cash equivalents at the beginning of the year	4	1,951,502	3,581,774
Cash and cash equivalents at the end of the year	**4**	**3,439,222**	**1,951,502**

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

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 Fortis 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. The consolidated financial statements of the Group were authorized for issuance by the management on 20 February 2015. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue. Following the merger and related subsequent share transfers among shareholders, the shareholders' structure and their respective ownerships are summarized below as of 31 December 2014 together with the comparative information as of 31 December 2013:

	31 December 2014		**31 December 2013**	
Name of shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
TEB Holding 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.	402,517	18.26	380,311	17.25
Publicly Traded and Other Shareholders	71,117	3.23	93,323	4.24
	2,204,390	**100.00**	**2,204,390**	**100.00**

As of 31 December 2014, the Bank's paid-in-capital consists of 2,204,390,000 shares of TL 1.00 (full TL) nominal each.

As of 14 November 2014, BNP Paribas Fortis Yatırımlar Holding A.Ş., BNP Paribas Yatırımlar Holding A.Ş., BNP Paribas and TEB Holding A.Ş. acting jointly as the "Controlling Shareholders" according to the Communiqué of the Capital Markets Board No. II-27.2 on Squeeze-out and Sell-Out Rights ("Communiqué"), hold 96.005% of the voting rights of TEB. Pursuant to Temporary Article 1 of the Communiqué, "the right to sell" and the "squeeze-out right" have become exercisable following the purchase of an additional share by BNP Paribas Fortis Yatırımlar Holding A.Ş, one of the Controlling Shareholders, on 14 November 2014.

Within the three-month statute of limitations that started on 14 November 2014, the date of the purchase of the additional shares(14 November 2014 - 16 February 2015), any shareholders other than the Controlling Shareholders are entitled to sell their shares of the Bank to BNP Paribas Fortis Yatırımlar Holding A.Ş. which is one of the Controlling Shareholders.

BNP Paribas Fortis Yatırımlar Holding A.Ş., one of the Controlling Shareholders, will be entitled to exercise its squeeze-out right following the expiry of the three-month statute of limitations on 16 February 2015. BNP Paribas Fortis Yatırımlar Holding A.Ş. will submit an application to the Bank to exercise its squeeze-out right within three business days of the expiry of the three-month statute of limitations.

An application requesting the delisting of the shares of Türk Ekonomi Bankası A.Ş. will be made to BIST at the same time as the application for exercising the squeeze-out right is made to the Capital Markets Board.

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

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 31 December 2014 and 31 December 2013 are as follows:

	Place of Incorporation	Effective Shareholding And Voting Rights %	
		31 December 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. (TEB Faktoring)	Turkey	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	54.74	54.74
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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention, except for those assets and liabilities measured at fair value.

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL"). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements, which mainly comprise the effects of deferred taxation and reserve for impairment of loans and receivables.

The merger of TEB and Fortis Bank A.Ş. has been effectuated as of 14 February 2011. The related transaction has been accounted for in accordance with the requirements of IFRS 3 "Business Combinations".

2.2 Summary of Significant Accounting Policies, Judgments and Estimates

Judgments and Estimates

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards (IAS) requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the statement of income and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results of operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the consolidated financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the consolidated financial statements are discussed in the relevant sections below.

Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiaries Which Operate in Turkey:

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira ("TL"). Until 31 December 2004, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

Functional Currencies of Foreign Subsidiaries:

Economy Bank operating in Netherlands adopted the Euro ("EUR") as its functional currency.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Foreign Currency Translation

The consolidated financial statements are presented in TL, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
31 December 2012	2.35	1.78
31 December 2013	2.93	2.13
31 December 2014	2.81	2.32

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (TL) at the exchange rate ruling at the balance sheet date. The income statements of foreign subsidiaries are translated at average exchange rates for the year end. For consolidation purposes, exchange differences arising from the translation of the net investment in foreign entities are included in other comprehensive income as currency translation differences until the disposal of the net investment.

On disposal of a foreign entity, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation is recognized in the income statement as a component of the gain or loss on disposal.

Basis of Consolidation and Goodwill

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December of each year.

Subsidiaries are entities over which the Group controls because the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are subject to consolidation. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Basis of Consolidation and Goodwill (continued)

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units. There is no negative bargain purchase gain recognized by the Group.

Premises and Equipment

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

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

Buildings and land improvements	50 years
Vehicles	5-10 years
Furniture, fixtures and office equipment and others	2-50 years
Land	Not depreciated
Leasehold improvements	Lease period (max 10 years)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end.

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset’s fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Intangible Assets

Intangible assets acquired are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

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

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances such as selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying value would increase by TL 24,311 (31 December 2013: TL 4,280 decrease) before tax effect, by adjusting to fair value due to change in the classification and hence, the valuation methodology, with a corresponding entry in the net unrealized gains on available-for-sale investments under equity. There has been no tainting in the held-to-maturity portfolio during the current period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets (continued)

Held-to-maturity investments (continued)

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

Interest earned whilst holding held-to-maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

Government debt securities nominal amounting to TL224,275 which had been accounted as financial assets available for sale, as of 25 September 2013, The Parent Bank classified these securities with the market value amounting to TL287,008 in held to maturity investment. As of 25 September 2013, accrued valuation difference amounting to negatively TL38,362 of reclassified securities available for sale has been following under shareholders' equity. This accrued valuation difference is subjected to amortization according to days to maturity and transferred to profit/loss accounts. As of 31 December 2014, total accrued valuation difference of these securities following under shareholders' equity is negatively TL31,146 (31 December 2013: TL36,973).

Loans and receivables

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

Available-for-sale financial assets

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

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets (continued)

Repurchase and Resale Transactions

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

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

Netting of Financial Assets and Liabilities

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

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

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

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets

a) Assets carried at amortized cost

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

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
(c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(d) becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off are included in income.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and factoring receivables as of 31 December 2014 is TL 45,694,496 (31 December 2013: TL 38,557,552) net of impairment allowance of TL 1,251,072 (31 December 2013: TL 987,730).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets (continued)

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value since its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the recoverable amount of the asset. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest - Bearing Deposits and Borrowings

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

Employee Benefits

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30 day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct, and due to marriage, female employees terminating their employments within a year as of the date of marriage, or male employees terminating their employments due to their military service. The Bank is also required to make a payment for the period of notice calculated over each service year of the employee whose employment is terminated for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS No: 19 “International Accounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Bank uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are reviewed annually. The carrying value of provision for employee termination benefits as of 31 December 2014 is TL101,658 (31 December 2013: TL 89,348).

	31 December 2014	31 December 2013
Discount Rate (%)	8.60	9.92
Expected Inflation Rate (%)	5.00	6.45
Salary Increase Rate Above Inflation Rate (%)	1.00	1.00

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Employee Benefits (continued)

Defined Benefit Plans (continued)

Employees transferred to the Bank following the business combination defined in "General Information" of the Parent Bank and Fortis Bank A.Ş. are the members of "Türk Dış Ticaret Bankası Mensupları Pension Fund Foundation" (the "Pension Fund") which was established in May 1964 under the Provisional Article 20 of Social Insurance Law No: 506. Technical financial statements of the Pension Fund are reviewed by a licensed actuary in accordance with Article 38 of the Insurance Supervisory Law and the "Actuary Regulations" issued based on the same article. As of 31 December 2014, the Pension Fund has 2,166 employees and 959 pensioners (31 December 2013: 2,401 employees and 918 pensioners).

Provisional Article 23 (1) of Banking Law No: 5411 (the "Banking Law") published in the Official Gazette repeated no: 25983 on 1 November 2005 requires the transfer of bank funds to the Social Security Institution (the "SSI") within 3 years after the effective date of the Banking Law and the related paragraph also sets out the basis for the related transfer. However, Article 23 (1) of Banking Law No: 5411 was annulled based on the Constitutional Court's ruling issued on 22 March 2007 and ruled for the stay of execution as of 31 March 2007. The related Court ruling and its basis were published in the Official Gazette No: 26731 on 15 December 2007.

Following the publication of the said decree of the Constitutional Court, the Turkish Grand National Assembly (the "TGNA") initiated its studies on the development of new regulations in regards to the transfer of bank pension participations to the SSI and the related articles of the Social Security Law that are set out to determine the basis of fund transfers and new regulations became effective with its publication in the Official Gazette No: 26870 on 8 May 2008 and the completion of the transfer within 3 years starting from 1 January 2008. Upon the Council of Ministers' resolution issued in the Official Gazette, the transfer period has been extended for 2 years as of 14 March 2011. According to amendment on the social security and general health insurance law published in the Official Gazette dated 8 March 2012 numbered 6283, mentioned 2-year transfer period has been increased to 4 years. Upon the Council of Ministers' resolution dated 24 February 2014 issued in the Official Gazette No:28987 on 30 April 2014, mentioned transfer period has been extended for one more year while it has been extended for one year upon the Council of Ministers' resolution dated 08 April 2013 issued in the Official Gazette No:28636 on 3 May 2013.

According to the related regulation, all other outstanding social rights and payments of participants (even though they are covered in their respective settlement deed) shall be covered by the companies employing pension fund participants following the transfer of the pension fund participants and/or those that are paid annuities and their beneficiaries to the Social Security Institution.

The technical financial statements of the Pension Fund are prepared by an independent actuary company considering related regulation and the Fund is not required to provide any provisions for any technical or actual deficit in the financial statements based on the actuarial report prepared as of 31 December 2014. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

The Bank management anticipates that any potential liability that may be incurred during or after the transfer will be likely recovered by plan assets and no additional liability is foreseen.

Defined Contribution Plans

The Bank pays contributions to Social Security Funds and to "Security Fund" whose members joined to the Bank as a consequence of merger.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restructuring Costs

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity

Leases

(a) The Group as Lessee

Finance leases

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 balance sheet 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.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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

Factoring Receivables

Factoring receivables are recognized at original factored receivable amount less advances extended against factoring receivables, interest and factoring commissions charged, and are carried at amortized cost, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Income and Expense Recognition

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

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

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

Income Tax

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

The Group is subject to income taxes in various jurisdictions. Where there are matters causing the final tax outcome to be different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As of 31 December 2014, the Group carries TL 87,155 of income taxes payable (31 December 2013: TL 15,168), TL 181,154 of deferred tax asset (31 December 2013: TL 116,617) and has no deferred tax liability (31 December 2013: nil).

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Income Tax (continued)

Deferred tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

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

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

Derivative Financial Instruments and Hedge Accounting

Derivatives Held for Trading

The Group enters into transactions with derivative instruments including forwards, swaps, options and futures in the foreign exchange and capital markets. Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

All derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. As of 31 December 2014, the carrying amount of derivative financial assets held for trading is TL 597,302 (31 December 2013: TL 729,270) and the carrying amount of derivative financial liabilities held for trading is TL 448,658 (31 December 2013: TL 482,831).

Derivatives and Hedge Accounting

The Bank applies fair value hedge accounting in order to avoid the effects of interest rate fluctuations in the market by matching its swap portfolio with its loans and available for sale securities.

The Bank has applied cash flow hedge accounting by matching its swap portfolio with the deposit portfolio having maturity up to 90 days.

The fair value changes of the hedged portfolios are included under "remeasurement adjustment on interest-rate risk hedged portfolios" in the balance sheet and "net gain/loss on financial instruments at fair value through profit or loss" in the income statement. Additionally, the difference between the fair value and the carrying value of the hedged portfolio at the inception of hedge accounting is amortized based on the respective maturities and included in "net gain/loss on financial instruments at fair value through profit or loss" in the income statement together with the fair value changes of the hedged portfolio and hedging instruments. The actual interest income and expense on the derivatives used for hedging purposes are recorded as interest income and expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Derivatives and Hedge Accounting (continued)

At the inception of the hedge, the Bank prepares formal documentation of the hedging relationship identifying the hedged item, the hedging instrument, the hedging strategy, the type of risk covered and the methods used to assess the effectiveness of the hedging relationship. On inception and on a quarterly basis the effectiveness of the hedging relationship is assessed consistently with the original documentation. The details of the hedge accounting are explained in Note 17.

Fiduciary Assets

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

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Interest Income and Expenses

Interest income and expense are recognized in the income statement for all interest bearing instruments whose cash inflows and outflows are known on an accrual basis using the effective interest method. In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

Fees and Commission Income and Expenses

Fees for various banking services are recorded as income when collected and prepaid commission income on cash and non-cash loans is recorded as income by using effective interest rate in the related period.

Fees and commissions for funds borrowed paid to other financial institutions, as part of the transaction costs, are recorded as prepaid expenses using the effective interest rate and are expensed on the related periods.

Dividend Income

Dividend income from is reflected in the financial statements when the group's right to receive payments is established.

2.3 New and Revised International Financial Reporting Standards

a. Standards, Amendments and IFRICs applicable to 31 December 2014 year ends

i) Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities, effective from annual periods beginning on or after 1 January 2014. This 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) Amendments to IAS 36, 'Impairment of assets', effective from annual periods beginning on or after 1 January 2014. These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

iii) Amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting, effective from annual periods beginning on or after 1 January 2014. These narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

a. Standards, Amendments and IFRICs applicable to 31 December 2014 year ends(continued)

iv) IFRIC 21, ‘Levies’, effective from annual periods beginning on or after 1 January 2014. This interpretation is on 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.

v) Amendments to IFRS 10, ‘Consolidated financial statements’, IFRS 12 and IAS 27 for investment entities, effective from 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. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

b. New IFRS standards, amendments and IFRICs effective after 1 January 2015

i) Annual improvements 2012; effective from 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 Combinations’
- IFRS 8, ‘Operating segments’
- IFRS 13, ‘Fair value measurement’
- IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’
- Consequential amendments to IFRS 9, ‘Financial instruments’, IAS 37, ‘Provisions, contingent liabilities and contingent assets’, and
- IAS 39, Financial instruments – Recognition and measurement’

ii) Annual improvements 2013; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2011-12-13 cycle of the annual improvements project, that affect 4 standards:

- IFRS 1, ‘First time adoption’
- IFRS 3, ‘Business combinations’
- IFRS 13, ‘Fair value measurement’ and
- IAS 40, ‘Investment property’.

iii) IFRS 14 ‘Regulatory deferral accounts’, effective from annual periods beginning on or after 1 January 2016. IFRS 14, ‘Regulatory deferral accounts’ permits first–time adopters to continue to recognise 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 recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

iv) Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 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) Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment it 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. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

b. New IFRS standards, amendments and IFRICs effective after 1 January 2015 (continued)

vi) Amendments to IAS 27, 'Separate financial statements' on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

vii) Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures', effective from annual periods beginning on or after 1 January 2016. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

viii) IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2017. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

ix) IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

x) Amendments to IAS 16 'Property, plant and equipment', and IAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

xi) Amendment to IAS 19 regarding defined benefit plans, effective from 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.

xii) Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

3. SEGMENT INFORMATION

Business segments

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

Year ended 31 December 2014

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
Net banking income	826,374	1,922,519	386,415	(1,893)	3,133,415
Dividend income	-	-	9,809	(9,809)	-
Revenues from other segments	-	-	-	-	-
Net banking income	**826,374**	**1,922,519**	**396,224**	**(11,702)**	**3,133,415**
Segment result (A)	171,350	1,036,532	(315,797)	-	892,085
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**171,350**	**1,036,532**	**(315,797)**	**-**	**892,085**
Income tax	-	-	(182,858)	-	(182,858)
Net profit	**171,350**	**1,036,532**	**(498,655)**	**-**	**709,227**
Assets and Liabilities					
Segment assets	11,335,554	33,396,536	18,409,049	(234,017)	62,907,122
Unallocated assets	-	-	2,340,123	(2,372)	2,337,751
Total assets	**11,335,554**	**33,396,536**	**20,749,172**	**(236,389)**	**65,244,873**
Segment liabilities	23,050,692	18,703,471	14,446,557	(56,359)	56,144,361
Unallocated liabilities	-	-	2,585,713	(944)	2,584,769
Total liabilities	**23,050,692**	**18,703,471**	**17,032,270**	**(57,303)**	**58,729,130**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	82,244	-	82,244
Intangible fixed assets	-	-	27,977	-	27,977
Depreciation	-	-	85,921	-	85,921
Amortization	-	-	27,049	-	27,049

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

3. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2013

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
Net banking income	646,899	1,626,855	490,643	(1,672)	2,762,725
Dividend income	-	-	4,209	(4,209)	-
Revenues from other segments	-	-	-	-	-
Net banking income	**646,899**	**1,626,855**	**494,852**	**(5,881)**	**2,762,725**
Segment result (A)	93,459	817,380	(105,259)	(4,195)	801,385
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**93,459**	**817,380**	**(105,259)**	**(4,195)**	**801,385**
Income tax	-	-	(159,536)	-	(159,536)
Net profit	**93,459**	**817,380**	**(264,795)**	**(4,195)**	**641,849**
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**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	145,952	-	145,952
Intangible fixed assets	-	-	45,596	-	45,596
Depreciation	-	-	70,277	-	70,277
Amortization	-	-	15,164	-	15,164

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. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total Group revenue.

Year ended 31 December 2014

	Turkey	Netherlands	Total
Other segment information			
Segment assets	61,507,014	1,400,108	62,907,122
Unallocated assets	2,323,749	14,002	2,337,751
Total assets	**63,830,763**	**1,414,110**	**65,244,873**
Capital expenditures			
Tangible fixed assets	82,180	64	82,244
Intangible fixed assets	27,907	70	27,977

Year ended 31 December 2013

	Turkey	Netherlands	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**
Capital expenditures			
Tangible fixed assets	145,942	10	145,952
Intangible fixed assets	44,969	627	45,596

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

4. CASH, BALANCES WITH CENTRAL BANKS, LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

	31 December 2014	31 December 2013
Cash on hand	800,559	693,670
Balances with central banks	1,263,930	978,747
Reserve deposits with central banks (restricted)	6,561,819	5,310,392
Cash and balances with central banks	**8,626,308**	**6,982,809**
Loans and receivables due from banks	**2,475,867**	**2,008,553**
Funds lent under reverse repurchase agreements	550,207	245
Other money market placements	**550,207**	**245**
Less: Loans due from banks	(1,630,097)	(1,719,165)
Less: Time deposits with original maturities of more than three months	(6,117)	(6,093)
Less: Reserve deposits (restricted)	(6,561,819)	(5,310,392)
Less: Interest accruals	(15,127)	(4,455)
Cash and cash equivalents in the statements of cash flows	**3,439,222**	**1,951,502**

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit a portion of certain liability accounts as specified in the related decree.

As of 31 December 2014, the Turkish lira required reserve ratios are determined to be within the range of 5%-11.50% depending on the maturity structure of deposits denominated in Turkish lira (31 December 2013: 5%-11.50% for all Turkish lira liabilities), and the required reserve ratios for foreign currency deposits and other liabilities within the range of 6%-13% (31 December 2013: 6%-13% for all foreign currency liabilities).

Banks in the Netherlands are required to maintain a certain amount of funds and/or reserves on an account at the Dutch Central Bank and receive interest on their reserve requirement deposits at rates in line with open-market facilities. 0.05% (31 December 2013: 0.25%) reserve deposit requirement is applicable in Netherlands for all deposits maturing less than 2 years.

The effective interest rates on deposits and placements are as follows:

	31 December 2014		31 December 2013	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with central banks	-	-	-	-
Reserve deposits	1.51%	-	-	-
Loans and receivables due from banks	3.75%-12.58%	0.18%-3.82%	4.25%-9.90%	0.45%-4.56%
Funds lent under reverse repurchase agreements	8.50%-10.15%	-	6.60%-7.06%	-
Interbank placements	-	-	-	-

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES

Financial assets at fair value through profit and loss:

	31 December 2014			31 December 2013		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Financial assets at fair value through profit and loss						
Debt instruments	**90,434**			**654,847**		
Turkish government bonds and treasury bills	80,641	4.00%-13.46%	-	642,579	5.90%-12.22%	-
Eurobonds issued by the Turkish government	9,793	-	0.43%-5.08%	12,268	-	1.92%-6.91%
Derivatives held for trading	**597,302**	-	-	**729,270**	-	-
Total financial assets at fair value through profit and loss	**687,736**			**1,384,117**		

Investment Securities:

	31 December 2014			31 December 2013		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Available- for-sale securities at fair value						
Debt instruments						
Turkish government bonds	4,354,574	7.72%-13.46%	-	4,343,141	5.54%-14.72%	-
Turkish treasury bills			-	-	-	-
Eurobonds issued by the Turkish government	112,566	-	0.19%-5.36%	44,729	-	4.25%-5.17%
Equity instruments – unlisted (*)	**9,226**	-	-	**9,226**	-	-
Equity instruments – listed(**)	-	-	-	**1,220**	-	-
Total available- for-sale securities at fair value	**4,476,366**			**4,398,316**		
Available-for-sale securities at cost						
Equity instruments – unlisted (***)	11,905	-	-	10,569	-	-
Total available- for- sale securities	**4,488,271**			**4,408,885**		
Held-to-maturity securities at amortized cost						
Debt instruments						
Turkish government bonds	317,360	11.96%-12.96%	-	292,956	10.72%-11.72%	-
Eurobonds issued by the Turkish government	-	-	-	-	-	-
Total held-to-maturity securities	**317,360**			**292,956**		
Total investment securities	**4,805,631**			**4,701,841**		

(*) After the sale of the Group's 90.01% shares in TEB Finansal Kiralama A.Ş.; the remaining 9.99% shares are presented as available-for-sale financial assets and accounted for at fair value in accordance with IAS 39. The corresponding amount is TL 12,594. With the sale of the Group's shares as at 29 September 2011, the corresponding amount became TL 9,226.

(**) As of 31 December 2013, includes TL 1,220 (31 December 2014: nil) of investment fund participation certificate.

(***) All unquoted available for sale equities are recorded at fair value except for the Group's investment of TL 11,905 which is recorded at cost since its fair value cannot be reliably estimated (31 December 2013: TL 10,569).

Unlisted equity securities classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded and it's not possible to obtain current market value for those investments. Consequently they are reflected at cost less reserve for impairment, if any, as a reliable estimate of their fair values could not be made.

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (continued)

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements, which are included in the related portfolio are:

	31 December 2014	31 December 2013
Financial assets at fair value through profit and loss	-	-
Available-for-sale securities	1,761,323	1,097,509
Held-to-maturity securities	-	-
Carrying value of securities given as collateral under repos	**1,761,323**	**1,097,509**
Related liability	**1,756,987**	**1,062,443**

As of 31 December 2014, government securities with carrying values of TL 663,499 (31 December 2013: TL 935,646) are pledged to the Central Bank and the İstanbul Takas ve Saklama Bankası Anonim Şirketi (İstanbul Settlement and Custody Bank Incorporation) and Vadeli İşlem Opsiyon Borsası (Turkish Derivatives Exchange) for regulatory requirements and as a guarantee for stock exchange, money market operations and derivatives.

TL 2,231,863 (31 December 2013: TL 1,812,900) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Gains and losses from investment securities arise from derecognition of available-for-sale securities.

The movement in investment securities (including those classified as loaned securities) is summarized as follows:

	31 December 2014			31 December 2013		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
At 1 January	4,408,885	292,956	4,701,841	4,308,832	20,416	4,329,248
Exchange differences	(2,975)	-	(2,975)	13,329	5,727	19,056
Additions	3,905,754	-	3,905,754	6,909,289	-	6,909,289
Disposals (sale and redemption)	(3,985,310)	(298)	(3,985,608)	(6,331,629)	(27,776)	(6,359,405)
Transfer	-	-	-	(287,008)	287,008	-
Changes in amortized cost and fair value	161,917	24,702	186,619	(203,928)	7,581	(196,347)
Total	**4,488,271**	**317,360**	**4,805,631**	**4,408,885**	**292,956**	**4,701,841**

The Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the year.

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

6. LOANS AND RECEIVABLES

	31 December 2014			31 December 2013		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Commercial	29,732,750	6.25%-30.00%	1.05%-8.50%	24,496,252	6.00%-30.00%	2.15%-7.50%
Consumer	12,054,286	7.68%-20.88%	0.47%-6.00%	10,300,655	7.56%-20.88%	1.13%-8.50%
Credit cards	2,472,404	7.42%-10.48%	-	2,622,063	7.30%-9.95%	-
Other	121,766	8.00%-30.19%	-	74,044	9.06%-27.81%	-
Total performing loans	**44,381,206**			**37,493,014**		
Loans in arrears	1,206,534			940,714		
Less: Allowance for individually impaired loans	(904,382)			(686,954)		
Less: Allowance for collectively impaired loans	(325,588)			(282,665)		
Total	**44,357,770**			**37,464,109**		

Loans and receivables amounting to TL 7,889,232 (31 December 2013: TL 6,985,467) have floating interest rates and the rest have fixed interest rates.

The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

31 December 2014	**Commercial**	**Consumer**	**Credit Cards**	**Other**	**Total**
Neither past due nor impaired	28,604,958	11,445,295	2,386,647	121,766	42,558,666
Past due not impaired	1,127,792	608,991	85,757	-	1,822,540
Individually impaired	756,261	263,494	186,779	-	1,206,534
Total gross	**30,489,011**	**12,317,780**	**2,659,183**	**121,766**	**45,587,740**
Less: allowance for individually impaired loans	(575,966)	(184,664)	(143,752)	-	(904,382)
Less: allowance for collectively impaired loans	(225,084)	(68,095)	(32,409)	-	(325,588)
Total allowance for impairment	**(801,050)**	**(252,759)**	**(176,161)**	**-**	**(1,229,970)**
Total net	**29,687,961**	**12,065,021**	**2,483,022**	**121,766**	**44,357,770**

31 December 2013	**Commercial**	**Consumer**	**Credit Cards**	**Other**	**Total**
Neither past due nor impaired	23,649,630	9,744,043	2,463,627	74,044	35,931,344
Past due not impaired	846,622	556,612	158,436	-	1,561,670
Individually impaired	621,980	175,386	143,348	-	940,714
Total gross	**25,118,232**	**10,476,041**	**2,765,411**	**74,044**	**38,433,728**
Less: allowance for individually impaired loans	(469,817)	(103,353)	(113,784)	-	(686,954)
Less: allowance for collectively impaired loans	(186,073)	(61,576)	(35,016)	-	(282,665)
Total allowance for impairment	**(655,890)**	**(164,929)**	**(148,800)**	**-**	**(969,619)**
Total net	**24,462,342**	**10,311,112**	**2,616,611**	**74,044**	**37,464,109**

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

6. LOANS AND RECEIVABLES (continued)

A reconciliation of the allowance for individual impairment losses on loans and receivables by classes is as follows;

	Commercial	Consumer	Credit Cards	Total
At 1 January 2014	**469,817**	**103,353**	**113,784**	**686,954**
Charge for the year	258,891	158,949	95,904	513,744
Recoveries	(67,327)	(54,288)	(26,077)	(147,692)
Sale of non-performing loans (*)	(91,626)	(23,350)	(39,859)	(154,835)
Exchange difference	6,211	-	-	6,211
At 31 December 2014	**575,966**	**184,664**	**143,752**	**904,382**

	Commercial	Consumer	Credit Cards	Total
At 1 January 2013	**345,248**	**67,048**	**78,762**	**491,058**
Charge for the year	259,415	69,609	77,885	406,909
Recoveries	(68,681)	(20,379)	(20,887)	(109,947)
Sale of non-performing loans (**)	(74,998)	(12,925)	(21,976)	(109,899)
Exchange difference	8,833	-	-	8,833
At 31 December 2013	**469,817**	**103,353**	**113,784**	**686,954**

(*) Amounting to TL174,635 past due receivable portfolio for which TL 173,488 provision had been allocated, is sold to TURKASSET Varlık Yönetimi A.Ş. for TL19,800, and after all the sales procedures were completed at 26 August 2014 with the completion of the necessary procedures, and the related past due receivable have been written off from the accounts.

(**) Amounting to TL117,132 past due receivable portfolio for which TL 115,611 provision had been allocated, is sold to LBT Varlık Yönetimi A.Ş. for TL9,310, and after all sales procedures were completed at 28 June 2013 with the completion of the necessary procedures, and the related past due receivable have been written off from the accounts.

Movements in the reserve for impairment on loans and receivables:

	31 December 2014	31 December 2013
Reserve at beginning of year	969,619	729,473
Provision for impairment	556,795	452,850
Recoveries	(147,692)	(111,943)
Provision net of recoveries	409,103	340,907
Sale of non-performing loans	(154,835)	(109,899)
Exchange differences	6,083	9,138
Reserve at the end of the year	**1,229,970**	**969,619**

The fair value of collaterals, capped with the respective outstanding loan balance, that the Group holds relating to loans individually impaired at 31 December 2014 is TL 236,874 (31 December 2013: TL 226,038).

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

	Current Period	Prior Period
Mortgage	176,746	176,808
Vehicle	56,043	43,046
Cash	201	211
Other	3,884	5,973
Total	**236,874**	**226,038**

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

6. LOANS AND RECEIVABLES (continued)

Collateral and credit enhancements obtained by taking possession:

31 December 2014	Commercial	Consumer	Total
Residential, commercial or industrial property	75,808	6,988	82,796
Other	391	-	391
Total	**76,199**	**6,988**	**83,187**

31 December 2013	Commercial	Consumer	Total
Residential, commercial or industrial property	78,829	7,516	86,345
Other	160	-	160
Total	**78,989**	**7,516**	**86,505**

The Group employs independent appraisers in determining the current fair values of its real estates. Provision for impairment loss amounting to TL 2,064 is booked for real estates held for resale as per the appraisals performed as of 31 December 2014 (31 December 2013: TL 4,961).

Aging analysis of past due but not impaired loans per class of financial instruments:

31 December 2014	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	715,205	231,125	181,462	1,127,792
Consumer	275,799	239,728	93,464	608,991
Credit cards	83,641	107	2,009	85,757
Total	**1,074,645**	**470,960**	**276,935**	**1,822,540**

31 December 2013	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	554,192	166,470	125,960	846,622
Consumer	285,354	209,690	61,568	556,612
Credit cards	158,357	2	77	158,436
Total	**997,903**	**376,162**	**187,605**	**1,561,670**

Of the total aggregate amount of gross past due but not yet impaired loans and receivables, the fair value of collaterals, capped with the respective outstanding total past due and not past due loan balances of the customer, that the Group held as at 31 December 2014 was TL 861,640 (31 December 2013: TL 1,049,199).

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

	Current Period	Prior Period
Mortgage	611,346	775,253
Vehicle	117,862	179,319
Cash	14,267	11,439
Other	118,165	83,188
Total	**861,640**	**1,049,199**

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

7. FACTORING RECEIVABLES

	31 December 2014			31 December 2013		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Factoring receivables	1,345,882	5.57%-30%	1.06%-7.49%	1,097,227	5.75%-35.00%	1.60%-9.23%
Receivables in arrears	30,568	-	-	24,417	-	-
Less: Reserve for impairment	(21,102)	-	-	(18,111)	-	-
Less: Deferred income	(18,622)	-	-	(10,090)	-	-
Net factoring receivables	**1,336,726**			**1,093,443**		

As of 31 December 2014, all of the factoring receivables have fixed interest rates (31 December 2013: All of factoring receivables have fixed interest rates).

Movements in the reserve for impairment:

	31 December 2014	31 December 2013
Reserve at beginning of year	18,111	7,131
Provision for impairment	5,527	9,477
Recoveries	(2,536)	(2,720)
Provision net of recoveries	2,991	6,757
Increase due to the merger	-	4,223
Loans written off during the year	-	-
Reserve at end of the year	**21,102**	**18,111**

TEB Faktoring holds TL 200 collateral relating to factoring receivables individually determined to be impaired at 31 December 2014 (31 December 2013: nil).

8. PREMISES AND EQUIPMENT

	Land and Buildings	Vehicles	Other	Total
At 1 January 2013				
Cost	116,968	1,003	783,585	901,556
Accumulated depreciation	(33,973)	(698)	(610,612)	(645,283)
Net book amount	**82,995**	**305**	**172,973**	**256,273**
Year ended 31 December 2013				
Opening net book amount	82,995	305	172,973	256,273
Exchange adjustment	1,865	-	59	1,924
Additions	-	261	145,691	145,952
Disposals	-	(2)	(983)	(985)
Depreciation charge for the year, net	(3,130)	(143)	(67,004)	(70,277)
Increase due to the merger	-	-	70	70
Closing net book amount	**81,730**	**421**	**250,806**	**332,957**
At 31 December 2013				
Cost	119,319	1,155	867,503	987,977
Accumulated depreciation	(37,589)	(734)	(616,697)	(655,020)
Net book amount	**81,730**	**421**	**250,806**	**332,957**
Year ended 31 December 2014				
Opening net book amount	81,730	421	250,806	332,957
Exchange adjustment	(381)	3	(7)	(385)
Additions	-	95	82,149	82,244
Disposals	(1,561)	-	(1,215)	(2,776)
Depreciation charge for the year, net	(3,840)	(119)	(81,962)	(85,921)
Closing net book amount	**75,948**	**400**	**249,771**	**326,119**
At 31 December 2014				
Cost	116,556	1,216	902,075	1,019,847
Accumulated depreciation	(40,608)	(816)	(652,304)	(693,728)
Net carrying amount	**75,948**	**400**	**249,771**	**326,119**

As of 31 December 2014 the cost of fully depreciated items equals TL 456,741 (31 December 2013: TL 472,185).

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

9. INTANGIBLE ASSETS

	Software Licenses and Other
At 1 January 2013	
Cost	129,041
Accumulated depreciation	(104,029)
Net book amount	**25,012**
Year ended 31 December 2013	
Opening net book amount	25,012
Exchange adjustment	243
Additions	45,596
Disposals	-
Depreciation charge for the year, net	(15,164)
Increase due to the merger	13
Closing net book amount	**55,700**
At 31 December 2013	
Cost	177,345
Accumulated depreciation	(121,645)
Net book amount	**55,700**
Year ended 31 December 2014	
Opening net book amount	**55,700**
Exchange adjustment	(45)
Additions	27,977
Disposals	-
Depreciation charge for the year, net	(27,049)
Increase due to the merger	-
Closing net book amount	**56,583**
At 31 December 2014	
Cost	205,180
Accumulated depreciation	(148,597)
Net carrying amount	**56,583**

The cost of fully amortized items amounted to TL 109,620 as of 31 December 2014 (31 December 2013: TL 96,988).

10. GOODWILL

As of 31 December 2014 the Group has TL 420,645 (31 December 2013: TL 420,645) goodwill and there is no goodwill impairment for the period (31 December 2013: nil).

11. OTHER ASSETS

	31 December 2014	**31 December 2013**
Receivables from banks for credit card transactions	461,881	338,935
Cheque clearing accounts	334,690	291,363
Collaterals for derivatives	202,974	153,315
Other transitory accounts	105,720	104,898
Prepaid expenses	95,001	94,571
Assets held for resale, net of impairment (Note 6)	83,187	86,505
Others	69,797	62,754
Total	**1,353,250**	**1,132,341**

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

12. DEPOSITS

Deposits from other banks

	31 December 2014			31 December 2013		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Demand	40,299	-	-	107,038	-	-
Time	1,289,298	2.00%-11.15%	0.05%-0.50%	1,528,534	0.50%-9.10%	0.25%-2.00%
Total	**1,329,597**			**1,635,572**		

Customers' deposits

	31 December 2014			31 December 2013		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign currency		Turkish Lira	Foreign currency
Saving						
Demand	2,022,600	5.75%-5.75%	0.25%-0.50%	2,080,861	4.00%	0.25%-0.50%
Time	20,541,450	8.75%-8.75%	0.40%-1.95%	17,400,078	4.50%-7.25%	0.90%-2.20%
	22,564,050			**19,480,939**		
Commercial and other						
Demand	3,910,032	6.50%	0.56%-0.75%	3,856,999	3.25%	1.00%
Time	12,585,151	3.00%-12.10%	0.20%-6.50%	10,559,636	3.00%-10.25%	0.25%-4.00%
	16,495,183			**14,416,635**		
Total	**39,059,233**			**33,897,574**		

Included in customer accounts were deposits of TL 1,276,381 (31 December 2013: TL 1,363,039) held as collateral for cash and non-cash loans given.

Other money market deposits

	31 December 2014			31 December 2013		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Obligations under repurchase agreements:						
-Due to customers and other financial institutions	-	-	-	-	-	-
-Due to banks	1,756,987	8.25%-10.05%	-	1,062,443	4.49%-7.75%	-
	1,756,987			**1,062,443**		

As of 31 December 2014 and 31 December 2013 all deposits and money market deposits have fixed interest rate.

13. MARKETABLE SECURITIES ISSUED

	31 December 2014		31 December 2013	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Bank Bonds	696,679	294,904	507,046	-
Bank Bills	-	-	203,230	-
Total	**696,679**	**294,904**	**710,276**	**-**

The bond issued by the Parent Bank on 11 September 2014 with a nominal value of TL 228,205 maturity of 173 days, with due date of 4 March 2015, with an interest rate of 9.42573% and with an annual compound rate of 9.65978% has started to be publicly traded in bonds and bills markets with the ISIN code "TRQTEBK31510".

The bond issued under Euro Medium Term Note Program by the Parent Bank on 17 October 2014 with a nominal value of USD 20,600,000 with due date of 22 January 2015 has started to be publicly traded in bonds and bill market with the ISIN code "XS1124323962".

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

13. MARKETABLE SECURITIES ISSUED (continued)

The bond issued under Euro Medium Term Note Program by the Parent Bank on 2 October 2014 with a nominal value of USD 21,800,000 with due date of 5 January 2015 has started to be publicly traded in bonds and bill market with the ISIN code “XS1115428994”.

The bond issued by the Parent Bank on 20 October 2014 with a nominal value of TL 254,481 maturity of 176 days, with due date of 15 April 2015, with an interest rate of 9.58505% and with an annual compound rate of 9.82318% has started to be publicly traded in bonds and bills markets with the ISIN code “TRQTEBK41519”.

The bond issued by the Parent Bank on 20 October 2014 with a nominal value of TL 26,859 maturity of 302 days, with due date of 19 August 2015, with an interest rate of 9.80483% and with an annual compound rate of 9.88609% has started to be publicly traded in bonds and bills markets with the ISIN code “TRQTEBK81515”.

The bonds issued under Euro Medium Term Note Program by the Parent Bank on 30 October 2014 with a nominal value of USD31,000,000 with due date of 30 April 2015 and USD 28,800,000 with due date of 29 January 2015 have started to be publicly traded in bonds and bill market with the ISIN codes “XS1129620420” and “XS1129546195”.

The bond issued under Euro Medium Term Note Program by the Parent Bank on 6 November 2014 with a nominal value of USD 24,400,000 with due date of 6 February 2015 has started to be publicly traded in bonds and bill market with the ISIN code “XS1135141676”.

The bond issued by the Parent Bank on 27 November 2014 with a nominal value of TL 241,314 maturity of 166 days, with due date of 13 May 2015, with an interest rate of 8.24530% and with an annual compound rate of 8.43108% has started to be publicly traded in bonds and bill market with the ISIN code “TRQTEBK51518”.

14. FUNDS BORROWED

	31 December 2014		
		Effective interest rate	
	Amount	**Turkish Lira**	**Foreign currency**
Short-term			
Fixed interest	9,046,450	5.38%-10.70%	0.52%-3.08%
Floating interest	1,078,294	6.34%-7.79%	0.58%-3.51%
Medium/long-term			
Fixed interest	257,693	10.55%-10.55%	1.70%-4.52%
Floating interest	74,459	-	1.08%-6.08%
Floating interest subordinated loan	1,779,705	-	-
Total	**12,236,601**		

	31 December 2013		
		Effective interest rate	
	Amount	**Turkish Lira**	**Foreign currency**
Short-term			
Fixed interest	6,186,145	5.00%-11.62%	0.44%-4.35%
Floating interest	1,440,097	4.75%-7.25%	0.64%-4.15%
Medium/long-term			
Fixed interest	282,106	8.73%-10.55%	1.70%-4.52%
Floating interest	101,893	5.25%-5.75%	2.07%-3.13%
Floating interest subordinated loan	1,770,856	-	2.49%-6.10%
Total	**9,781,097**		

Repayment plan of medium and long-term borrowings is as follows:

	31 December 2014		31 December 2013	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**
2015	-	118,108	25,644	134,892
2016	87,859	8,575	64,590	374
2017	-	300,824	-	290,646
2018	56,715	-	73,922	-
2019	-	812	-	-
Thereafter	113,119	1,425,845	117,950	1,446,837
Total	**257,693**	**1,854,164**	**282,106**	**1,872,749**

14. FUNDS BORROWED (continued)

The Bank has signed an agreement with the International Finance Corporation (IFC) on 27 June 2005, for a subordinated loan. The facility is a USD 50 million subordinated loan, with a maturity of 15 July 2015 and with an interest rate of LIBOR+3.18%.

The Bank has obtained a primary subordinated loan by issuing a bond amounting to USD 100 million as of 31 July 2007. The investor of the bond is IFC. The maturity of the borrowing is indefinite with semi-annually interest payment. The interest rate is defined as LIBOR+3.5% until 31 July 2017. In case the borrowed amount is not repaid at that date, the interest rate will be revised as LIBOR + 5.25%. Notes are issued as perpetual.

The Bank has obtained secondary subordinated loans by issuing a bond amounting to EUR 75 million as of 4 November 2011 and a bond amounting to EUR 100 million as of 21 December 2011. The bond issue on 21 December 2011 amounting to EUR 100 million is added up with the first issue of EUR 75 million and together will be followed as EUR 175 million. Since the coupon rate of the issue amounting to EUR 100 million is semi-annual Euribor + 5.25% and two issues stated above will be merged and the merged issue will carry the coupon rate of the first issue (Euribor + 4.75% on an annual basis), the price of EUR 100 million issue has been determined as 96.026% (the price determined as the 12 month interest difference between two issues discounted by new issues semi-annual coupon rate of Euribor + 5.25%). As interest payment periods of the new issue will be same with the first one, 47-day interest accrual amounting to EUR 852,537.78 related to the period between 4 November 2011 and 21 December 2011 was paid to the Bank by the investor purchasing the second issue. On 21 December 2011, total net amount of EUR 96,878,527.78 is transferred to the bank accounts.

The Bank, during its Board of Directors' meeting dated 8 May 2012 has resolved to issue a debt instrument as secondary subordinated debt instrument with a value of USD 65 million on 14 May 2012. The semiannually interest rate of the issuance is determined as USD Libor + %5.75. The due date of the debt instrument is determined as 14 May 2024 and for the first seven years there is no option to repay before its due date. The debt instrument can be amortized on 14 May 2019 with the decision of the Board of Directors and upon the approval of Banking Regualtion and Supervision Agency.

The Parent Bank has resolved to issue a secondary subordinated debt in the amount of EURO 100 million on 20 July 2012. The interest rate of the issuance has been determined as semi-annualy EURIBOR + 4.75%. The due date of the debt instrument is 20 July 2024 and there is no option to repay within the first seven years. The debt instrument can be amortized on 20 July 2019 with the resolution of the BoD and upon the approval of the BRSA.

The Parent Bank has resolved to issue a secondary subordinated debt in the amount of EURO 125 million on 25 June 2013. The interest rate of the issuance has been determined as semi-annualy EURIBOR + 2.1%. The due date of the debt instrument is 27 June 2023 and there is no option to repay within the first five years. The debt instrument can be amortized on 27 June 2018 with the resolution of the BoD and upon the approval of the BRSA.

The Parent Bank has resolved to issue a secondary subordinated debt in the amount of USD 65 million on 25 June 2013. The interest rate of the issuance has been determined as semi-annualy LIBOR + 3.40%. The due date of the debt instrument is 27 June 2023 and there is no option to repay within the five seven years. The debt instrument can be amortized on 28 June 2018 with the resolution of the BoD and upon the approval of the BRSA.

Each of the seven of the above facilities match BRSA's subordinated loan-capital definitions and contribute to the Bank's capital adequacy ratio in a positive manner, as well as creating long term financial.

The Parent Bank diversifies its funding sources through customer deposit and borrowings from abroad. As of 31 December 2014 foreign borrowings of the Bank includes syndication loan obtained with the agreement dated 21 August 2014 and 26 August 2015 maturity amounting to EUR 335,000,000 and USD 180,000,000.

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

15. OTHER LIABILITIES AND PROVISIONS

	31 December 2014	31 December 2013
Other liabilities		
Cheque clearing account	651,485	561,501
Payables to credit card member firms	517,334	468,064
Payables to banks for credit cards transactions	301,860	399,430
Deferred insurance commission income	208,970	212,200
Collaterals for derivatives	148,406	106,668
Taxes and compulsory surcharges other than on income	111,741	92,687
Bonus premium accrual	94,651	72,177
Other transitory accounts	81,073	60,229
Trade and other payables	64,266	52,935
Payables for promotions of credit cards and banking services	12,625	12,204
Blocked bank cheques	8,087	9,169
Payment orders	482	423
Others	92,596	77,854
	2,293,576	**2,125,541**
Provisions		
Employee termination benefits	101,658	89,348
Provision for legal cases	37,704	35,796
Reserve for impairment of non-cash loans (specific and portfolio)	32,970	35,606
Unused vacation pay liability	23,588	26,725
Provisions for possible outcomes of certain tax disputes	735	735
Other provisions	7,383	8,984
	204,038	**197,194**
Total	**2,497,614**	**2,322,735**

Employee Termination Benefits

In accordance with existing social legislation, TEB and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3.438,22 (full TL) and TL 3.254,44 (full TL) at 31 December 2014 and 2013, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of 31 December 2014 and 2013, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	31 December 2014	31 December 2013
Discount rate	8.60%	9.92%
Expected rate of inflation	5.00%	6.45%
Salary increase rate above inflation rate	1.00%	1.00%

Movements in the present value of the employee termination benefit obligations in the current year were as follows:

	1 January- 31 December 2014	1 January- 31 December 2013
Opening defined benefit obligation	89,348	93,125
Current service cost	14,599	12,590
Interest cost	9,570	6,789
Actuarial (gains)/losses	(5,971)	(19,609)
Settlement cost	2,900	1,745
Benefits paid	(8,788)	(5,356)
Increase due to the merger	-	64
Closing defined benefit obligation, recognized in the balance sheet	**101,658**	**89,348**

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

15. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits (continued)

Amounts recognized in profit and loss in respect of employee termination benefit plan are as follows:

	31 December 2014	31 December 2013
Current service cost	14,599	12,590
Interest cost	9,570	6,789
Settlement cost	2,900	1,745
Total	**27,069**	**21,124**

Retirement Benefits

The employees who have joined the Bank as a consequence of the merger of TEB and Fortis Bank are members of the "Pension Fund Foundation" established in accordance with the Social Security Law No.506, Article No.20.

The liabilities described in the Note 2.3 Summary of Significant Accounting Policies, Judgements and Estimates – Employee Benefits section which may arise during the transfer have been calculated by the actuary based on the principles of the related regulation, whereas the liabilities in connection with other social rights and benefits which will not be undertaken by the SSI after the transfer have been calculated by the actuary based on IAS 19 principles. Based on the actuarial reports prepared as of 31 December 2014 and 31 December 2013, the Retirement Fund has a surplus. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

Based on the determined assumptions,

Transferrable Retirement and Health Liabilities:	31 December 2014	31 December 2013
Net Present Value of Transferrable Retirement Liabilities	(1,024,427)	(915,853)
Net Present Value of Transferrable Retirement and Health Contributions	528,309	525,943
General Administration Expenses	(10,243)	(9,159)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(506,361)	(399,069)
Fair Value of Plan Assets (2)	1,387,693	1,264,472
Asset Surplus over Transferable Benefits ((2)-(1)=(3))	881,332	865,403
Non-Transferable Benefits (4)	(206,832)	(219,301)
Asset Surplus over Total Benefits ((3)-(4))	674,500	646,102

Distribution of total assets of the Retirement Fund as of 31 December 2014 and 31 December 2013 is presented below:

	31 December 2014	31 December 2013
Bank placements	1,299,485	1,159,056
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	71,266	35,742
Tangible assets	15,220	68,267
Other	1,722	1,407
Total	**1,387,693**	**1,264,472**

Actuarial assumptions used in valuation of liabilities except for transferrable liabilities based on IAS 19 are as follows:

	31 December 2014	31 December 2013
Discount Rate	8.80%	10.10%
Expected Inflation Rate	5.00%	6.50%

As of 31 December 2014, medical inflation is expected more than 20% of inflation rate (31 December 2013: 40%). In order to represent the expected mortality rates before and after the retirement, CSO 2001 (31 December 2013: CSO 2001) Female/Male mortality table is used.

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

16. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on each company's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate was 20% in 2014 and 2013 in Turkey, 25% in Netherlands for Economy Bank.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2014 (2013: 20%).

Losses are allowed to be carried for maximum 5 years to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1st and 25th of the fourth month following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within the following five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, if any, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

As of 31 December 2014, effective tax rate of the consolidated foreign subsidiaries established in the Netherlands is 25% (31 December 2013: 25%).

As of 31 December 2014 and 2013 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2014	31 December 2013
Income tax liability	259,373	132,760
Advance income taxes	(172,218)	(117,592)
Total	**87,155**	**15,168**

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

	31 December 2014	31 December 2013
Consolidated income statement		
Current income tax (charge)/benefit	(246,967)	(66,319)
Relating to origination and reversal of temporary differences	64,109	(93,217)
Income tax (charge)/benefit reported in consolidated income statement	**(182,858)**	**(159,536)**

Reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Profit before income tax	**892,085**	**801,385**
At Turkish statutory income tax rate of 20%	(178,417)	(160,277)
Income not subject to tax	241	1,708
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	(4,682)	(967)
Income tax	**(182,858)**	**(159,536)**

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

16. INCOME TAXES (continued)

Deferred income tax

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

	Consolidated Balance Sheet		Change in Deferred Income Tax	
	2014	**2013**	**2014**	**2013**
Deferred income tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	9,688	8,874	814	2,861
Effect of valuation of derivatives and hedge accounting	40,578	53,976	(13,398)	77,075
Gross deferred income tax liabilities	**50,266**	**62,850**	**(12,584)**	**79,936**
Deferred income tax assets				
Impairment provisions on loans and receivables	86,849	78,287	8,562	11,703
Deferred fee and commission income	63,605	62,163	1,442	712
Employee termination benefits and vacation pay liability	25,049	23,215	1,834	(1,033)
Bonus premium accrual	18,930	14,435	4,495	1,109
Valuation differences of trading and investment securities	15,287	(10,169)	25,456	(23,341)
Others	21,700	11,536	10,164	10,877
Gross deferred income tax assets	**231,420**	**179,467**	**51,953**	**27**
Deferred income tax asset, net	**181,154**	**116,617**	**64,537**	**(79,909)**

	31 December 2014	**31 December 2013**
Deferred income tax credit /(charge) recognized in income statement, net	64,109	(93,217)
Deferred income tax (charge)/ credit recognized in other comprehensive income	494	14,572
- Available for sale	(19,789)	39,865
- Cash flow hedge	23,076	(20,463)
- Actuarial gains and losses	(2,793)	(4,830)
Increase due to the merger	-	231
Foreign exchange effect	800	312
Other	(866)	(1,807)

Reflected as:

	31 December 2014	**31 December 2013**
Deferred tax asset	181,154	116,617
Deferred tax liability	-	-

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

	2014	**2013**
Balance at 1 January	116,617	196,526
Increase due to the merger	-	231
Deferred income tax (charge)/ credit recognized in other comprehensive income	494	14,572
- Available for sale	(19,789)	39,865
- Cash flow hedge	23,076	(20,463)
- Actuarial gains and losses	(2,793)	(4,830)
Deferred income tax credit / (charge) recognized in income statement	64,109	(93,217)
Foreign exchange effect	800	312
Other	(866)	(1,807)
Balance at 31 December	**181,154**	**116,617**

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

17. DERIVATIVES

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

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

	31 December 2014			31 December 2013		
Derivatives held-for-trading	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Forward contracts	57,262	98,492	7,918,769	178,236	62,348	8,907,614
Currency swap contracts	391,342	206,518	30,990,424	248,722	213,564	20,116,856
Cross currency swap contracts	22,850	48,534	2,074,919	7,430	15,174	732,464
Interest rate swap contracts	27,034	25,481	4,864,376	44,514	37,039	7,295,012
Call & put option contracts	98,814	69,633	17,710,511	250,368	154,706	20,503,877
Other	-	-	3,425	-	-	2,201
Total	**597,302**	**448,658**	**63,562,424**	**729,270**	**482,831**	**57,558,024**

Derivatives settled on a gross basis

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:					
Foreign exchange derivatives:					
- Inflow	4,446,714	3,066,270	6,155,358	1,449,159	19,712
- Outflow	11,358,548	5,918,124	8,922,921	3,014,504	151,452
Interest rate derivatives:					
- Inflow	433,420	58,011	9,994	33,495	733
- Outflow	1,226	7,676	17,068	26,423	669
Derivatives held for hedging:					
Foreign exchange derivatives:					
- Inflow	51,778	121,142	661,419	1,063,465	102
- Outflow	23,264	113,649	817,137	645,311	68
Total inflow	**4,931,912**	**3,245,423**	**6,826,771**	**2,546,119**	**20,547**
Total outflow	**11,383,038**	**6,039,449**	**9,757,126**	**3,686,238**	**152,189**

Fair value hedge

The Group applies fair value hedge accounting in order to avoid the effects of interest rate fluctuations in the market by matching its swap portfolio with its loans and available for sale securities. As of 31 December 2014, nominal value of derivative instruments used for hedging purposes is TL691,940 (31 December 2013: TL599,491) and their net fair value is negative TL9,583 (31 December 2013: TL40,563 negative) and their fair value of the hedged loans is TL6,077 (31 December 2013: TL3,404). The Bank accounts TL8,726 income (31 December 2013: TL78,670 income) for derivative instruments used for hedging purposes and TL2,673 income (31 December 2013: TL12,905 expense) from hedged item loans in the financial statements. Regarding the available-for-sale securities, the amount related to the effective portion is accounted TL 150 (31 December 2013: nil) which is accounted as TL120 (31 December 2013: nil) in the financial statements net-off tax.

	31 December 2014			31 December 2013		
Derivatives used for fair value hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Swap contracts	1,681	11,264	691,940	56,962	15,616	612,066
	1,681	**11,264**	**691,940**	**56,962**	**15,616**	**612,066**

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

17. DERIVATIVES (continued)

Cash flow hedge

The Group has applied cash flow hedge accounting by matching its swap portfolio having total notional amounting to TL10,394,271 with the deposit portfolio having maturity of up to 90 days. Effective portion of TL75,147 (31 December 2013: TL40,232 debit) credit accounted for under equity is presented after deducting its deferred tax effect of TL15,029 (31 December 2013: TL8,046 credit) debit in the financial statements. In 2014, the ineffective portion of TL459 expense (31 December 2013: TL1,427 income) is accounted for under income statement.

	31 December 2014			31 December 2013		
Derivatives used for cash flow hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Interest rate swap contracts	59,119	302,606	10,394,271	55,283	53,822	3,916,034
	59,119	**302,606**	**10,394,271**	**55,283**	**53,822**	**3,916,034**

18. SHARE CAPITAL

	31 December 2014	31 December 2013
Total number of shares, TL 1.00 (full TL) par value	2,204,390 Thousand	2,204,390 Thousand

As of 31 December 2014 and 31 December 2013, the composition of shareholders and their respective ownerships are summarized below:

	31 December 2014		31 December 2013	
	Amount	**%**	**Amount**	**%**
TEB Holding 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.	402,517	18.26	380,311	17.25
Publicly traded and other shareholders	71,117	3.23	93,323	4.24
	2,204,390	100.00	2,204,390	100.00
Inflation restatement effect	200,262		200,262	
Total	**2,404,652**		**2,404,652**	

7% of the Bank's remaining net income after tax subsequent to deducting legal reserves and first dividends, corresponding to the Bank's shares of TL 30 (in full TL) is distributed to the founder shares.

19. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement of Legal Reserves and Retained Earnings

	31 December 2014				31 December 2013			
	Legal Reserves	**Other Capital Reserves**	**Retained Earnings**	**Total**	**Legal Reserves**	**Other Capital Reserves**	**Retained Earnings**	**Total**
At 1 January	**170,419**	**1,084,258**	**2,126,455**	**3,381,132**	**143,555**	**1,084,258**	**1,513,198**	**2,741,011**
Transfer from retained earnings	26,447	-	(26,447)	-	26,864	-	(26,864)	-
Dividends paid	-	-	-	-	-	-	-	-
Net profit for the year (*)	-	-	708,319	708,319	-	-	640,121	640,121
At 31 December	**196,866**	**1,084,258**	**2,808,327**	**4,089,451**	**170,419**	**1,084,258**	**2,126,455**	**3,381,132**

(*) Net profit for the year regarding the period 31 December 2014 and 31 December 2013 does not include non-controlling interest income.

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the entity's share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% of all cash dividend distributions.

Dividends Paid and Proposed

Final dividends are not accounted for until they are ratified at the Annual General Meeting.

19. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED (continued)

Movements of Unrealized Gains/ Losses on Available-for-Sale Investments, Net of Tax

	31 December 2014	31 December 2013
At 1 January	**(102,440)**	**55,945**
Net unrealized gains on AFS	109,953	(108,115)
Realized (gains) / losses on AFS recycled to income statement on disposal	(12,106)	(90,124)
Tax effect of net gains on AFS	(19,778)	39,854
Total	**(24,371)**	**(102,440)**

Movements of Cash Flow Hedge Fund, Net of Tax

	31 December 2014	31 December 2013
At 1 January	**32,185**	**(49,666)**
(Losses) / gains on cash flow hedges	(115,379)	102,314
Tax effect of gains on cash flow hedges	23,076	(20,463)
Total	**(60,118)**	**32,185**

20. 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 year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from 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
2014	2,204,390	-	-	-	-	-	-	2,204,390

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

	31 December 2014	31 December 2013
Net profit	708,319	640,121
Weighted average number of ordinary shares for basic earnings per share	2,204,390	2,204,390
Net profit attributable to ordinary shareholders for basic earnings per share	0.3213	0.2904
Net profit attributable to ordinary shareholders for diluted earnings per share	0.3213	0.2904

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

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

21. 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 year-ends and relating expense and income for the years are as follows:

31 December 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 shareholders	62,073	-	-	6,107	-	-	-	-	-	304	482	527	20,708
Indirect shareholders	2,314	175,997	5,560,693	1,028,164	9,016	89,750	3,594	81,035	10,401,851	1,209	135,175	1,264	364
Others	13,911	97,560	-	1,190,285	580	257	518	4,071	255,600	2,049	49,820	13,476	19,284

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 shareholders	-	-	-	3,132	-	-	2,390	-	-	-	251	195	16,073
Indirect shareholders	7,130	275,934	3,846,609	1,217,897	13,536	77,422	-	112,570	12,533,319	2,730	165,675	10,628	779
Others	11,504	100,500	-	672,711	40,726	1	239	9	767	1,173	22,459	12,070	17,045

(*) "Direct shareholders" of the Group corresponds to TEB Holding A.Ş., BNP Yatırımlar Holding A.Ş. and BNP Paribas Fortis Yatırımlar Holding A.Ş.. "Indirect shareholders" of the Group corresponds to BNP Paribas SA, Çolakoğlu family members, Denak Depoculuk ve Nakliyecilik A.Ş., Çolakoğlu Metalurji A.Ş., Galata Yatırım Holding A.Ş.. "Others" corresponds to all other Çolakoğlu Group companies and BNP Paribas Group companies.

No provisions have been recognized in respect of loans given to related parties (31 December 2013: nil).

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 TL 39,386 as of 31 December 2014 (31 December 2013: TL 34,710) comprising mainly of salaries and other short-term benefits.

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

22. SALARIES AND EMPLOYEE BENEFITS

	31 December 2014	31 December 2013
Wages and salaries	678,801	611,429
Cost of defined contribution plan (employers' share of social security premiums)	117,370	104,981
Bonuses	75,658	58,102
Provision for employee termination benefits	27,069	21,124
Other fringe benefits	90,996	65,217
Total	**989,894**	**860,853**

23. OTHER OPERATING EXPENSES

	31 December 2014	31 December 2013
Maintenance and various administrative expenses	325,541	275,738
Rent expenses	186,770	161,997
Communication expenses	72,337	67,606
Advertisement expenses	73,386	79,095
Total	**658,034**	**584,436**

24. NET GAIN/LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2014	31 December 2013
Remeasurement of foreign currency position	457,992	(426,162)
Derivatives – held for trading fair value	(857,120)	446,946
Derivatives – held for trading - interest	28,387	(17,950)
Derivatives – hedging instruments - fair value	(4,217)	82,881
Remeasurement of interest-rate risk hedged portfolios	2,673	(12,905)
Net gain/(loss) on securities held for trading	(11,828)	(45,395)
Change in fair value of AFS securities hedged by fair value hedge	1,182	(3,804)
Total	**(382,931)**	**23,611**

Gains less losses on trading securities arise primarily from fixed income securities.

25. FEES AND COMMISSIONS INCOME AND EXPENSES

	31 December 2014	31 December 2013
Fees and commissions income		
Banking	1,249,012	931,162
Insurance	88,241	52,091
Brokerage	40,441	37,715
Fund management	31,875	36,315
Total	**1,409,569**	**1,057,283**
Fees and commissions expenses		
Banking	469,415	346,401
Other	42,921	36,704
Total	**512,336**	**383,105**

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

26. 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:

	31 December 2014	31 December 2013
Letters of guarantee issued	8,286,394	7,895,798
Letters of credit	1,508,547	1,688,889
Acceptance credits	62,150	271,178
Other guarantees	2,242,544	1,840,081
Total non-cash loans	**12,099,635**	**11,695,946**
Other commitments	8,643,240	8,003,295
Credit card limit commitments	4,101,473	3,545,841
Total	**24,844,348**	**23,245,082**

The Group has TL 166,854 (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 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 31 December 2014 the total nominal value and number of certificates are TL 1,666,917 and 166,682,310 thousand (31 December 2013: TL1,726,206 and 172,616,885 thousand) and the total fair value is TL8,290,103 (31 December 2013: TL8,212,029).

The Group has TL 31,875 (31 December 2013: 36,315) fund management commission income.

The Group also manages thirty four 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 Borsa İstanbul (BIST) and İstanbul Gold Market (IGM)

As of 31 December 2014, in line with the requirements of IGM, letters of guarantee amounting to TL 953 (31 December 2013: TL 873) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 31 December 2014, according to the general requirements of the BIST, letters of guarantee amounting to TL 34,396 (31 December 2013: TL 31,574) had been obtained from various local banks and were provided to BIST 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 37,704 (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.

27. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of matters reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

The mission of the Group Risk Management is to inform Board of Directors, General Management and the Audit Committee of the status of risks to which the Group is exposed and to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives. It compiles regulatory statements and financial reporting regarding risk management and measurement.

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Group. They have the ultimate responsibility of ensuring that senior management establishes and maintains an adequate and effective system of internal control.

The responsibility of the Audit Committee is to coordinate all the risk management activities within the bank and supervise the parties involved in Internal Control. In doing so, the Committee ensures establishment of an efficient and effective risk management.

Credit Risk

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Bank and operating companies.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the Bank and operating companies. Along with the Credit Committee, Financial Institutions and Country Risk Committee work as a sub-committee on a Group basis.

Credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of Corporate and SME clients.

Counterparty limits are daily monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are closely monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored on a daily basis.

The credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending.

In order to control the concentration risk, sector specific limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to customer groups in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, and impairment allowances as well as default and recovery rates.

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

27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Each operating company is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolio and controlling all credit risks.

After a loan facility is offered, the Credit Monitoring Department monitors the customer's repayment capability and the sufficiency and adequacy of the collateral. In this way, any problematic loan is identified at an early stage.

Both collective and specific provisions are made with methodologies which are compliant with both IFRS standards and BNP Paribas methodologies.

Netting is a technique used by the Group to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

An industry sector analysis of the Group's financial assets, non-cash loans and commitments are as follows;

	31 December 2014	31 December 2013
Private individuals	20,590,256	16,717,811
Ores & Materials	13,168,896	9,886,092
Banks	11,509,925	9,139,452
Food	5,203,976	5,069,834
Government	4,896,065	5,356,688
Construction & public works	3,437,510	4,773,364
Wholesaler	3,196,565	3,416,602
Transportation	2,560,016	2,859,394
Equipment materials	2,049,342	1,135,256
Energy	1,645,530	654,168
Chemical	1,495,113	1,573,616
Technology	1,285,472	980,150
Automotive	828,636	1,238,355
Finance	801,850	2,582,130
Healthcare & Pharmacy	72,429	40,976
Property	38,472	47,847
Hotels, Tourism, Leisure	163	177
Others	15,523,945	11,954,647
Total	**88,304,161**	**77,426,559**

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

Gross maximum exposure	31 December 2014	31 December 2013
Cash and balances with Central Banks (excluding cash on hand)	7,825,749	6,289,139
Loans and receivables due from banks	2,475,867	2,008,553
Other money market placements	550,207	245
Financial assets at fair value through profit and loss	687,736	1,384,117
Derivative used for hedging purposes	60,800	112,245
Available -for-sale financial assets	4,488,271	4,408,885
Held-to-maturity investments	317,360	292,956
Loans and receivables and factoring receivables	45,694,496	38,557,552
Remeasurement adjustment on interest-rate risk hedged portfolios	6,077	3,404
Other assets	1,353,250	1,132,341
Total	**63,459,813**	**54,189,437**
Contingent liabilities	12,099,635	11,687,986
Commitments	12,744,713	11,549,136
Total	**24,844,348**	**23,237,122**
Total credit risk exposure	**88,304,161**	**77,426,559**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 31 December 2014 and 2013 are as follows;

31 December 2014	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	550,207	-	-	550,207
Loans and receivables due from banks	2,475,867	-	-	2,475,867
Financial assets designated at fair value through profit or loss	687,736	-	-	687,736
Derivative financial instruments held for hedging	60,800	-	-	60,800
Loans and receivables	42,558,666	2,124,692	(325,588)	44,357,770
Commercial	28,604,958	1,308,087	(225,084)	29,687,961
Consumer	11,445,295	687,821	(68,095)	12,065,021
Credit Cards	2,386,647	128,784	(32,409)	2,483,022
Other	121,766	-	-	121,766
Factoring receivables	1,314,205	23,834	(1,313)	1,336,726
Remeasurement adjustment on interest rate risk hedged portfolio	6,077	-	-	6,077
Investment securities	4,718,135	-	-	4,718,135
Available-for-sale (*)	4,400,775	-	-	4,400,775
Held-to-maturity	317,360	-	-	317,360
Total	**52,371,693**	**2,148,526**	**(326,901)**	**54,193,318**

31 December 2013	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	245	-	-	245
Loans and receivables due from banks	2,008,553	-	-	2,008,553
Financial assets designated at fair value through profit or loss	1,384,117	-	-	1,384,117
Derivative financial instruments held for hedging	112,245	-	-	112,245
Loans and receivables	35,931,344	1,815,430	(282,665)	37,464,109
Commercial	23,649,630	998,785	(186,073)	24,462,342
Consumer	9,744,043	628,645	(61,576)	10,311,112
Credit Cards	2,463,627	188,000	(35,016)	2,616,611
Other	74,044	-	-	74,044
Factoring receivables	1,068,856	26,509	(1,922)	1,093,443
Remeasurement adjustment on interest rate risk hedged portfolio	3,404	-	-	3,404
Investment securities	4,659,442	-	-	4,659,442
Available-for-sale (*)	4,366,486	-	-	4,366,486
Held-to-maturity	292,956	-	-	292,956
Total	**45,168,206**	**1,841,939**	**(284,587)**	**46,725,558**

(*) TL 87,496 (31 December 2013: TL 42,399) equity securities not included.

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

	31 December 2014	31 December 2013
Loans and receivables		
Commercial	740,105	609,055
Consumer	233,525	440,937
Credit Cards	2,295	3,642
Total	**975,925**	**1,053,634**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit Rating System

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2014, consumer loans and business loans are excluded from the internal rating system of the Bank and those loans are 39.57 % of total loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total %
1st Category	The borrower has a very strong financial structure	35.54
2nd Category	The borrower has a good financial structure	27.68
3rd Category	The borrower has an intermediate level of financial structure	31.96
4th Category	The financial structure of the borrower has to be closely monitored in the medium run	4.82
	Total	**100.00**

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflow to fulfill the cash outflow completely on time.

The Group's policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self-sufficient with regard to funding requirements for its own operations.

The Group's liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

Asset and Liability Management Committee (ALCO) defines ALM policies and monitor the results weekly. Asset Liability Management and Treasury (ALM/T) Group has the responsibility for managing funding on money markets and financial markets from short to medium and long term financing and also provides funds to core business lines at TEB and Economy Bank and to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

The main source of funding to cover the liquidity requirements is customer deposits and in addition to this source, issuing bonds, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source. Generally the Group does not prefer the liquidity generated from interbank money markets to become the main form of funding and accordingly the Group is generally a net lender in interbank money markets.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important among these is to maintain limits on the ratio of the Bank's net liquid assets to customer liabilities, set to reflect market conditions. The ratio realized during the year was as follows:

Current Period	**First Maturity (Weekly)**		**Second Maturity (Monthly)**	
31 December 2014	**FC**	**FC+TL**	**FC**	**FC+TL**
Average (%)	162	143	144	109
Maximum (%)	229	164	172	116
Minimum (%)	126	125	124	104

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

27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated	Total
As at 31 December 2014						
Assets:						
Cash and balances with central banks	8,626,308	-	-	-	-	8,626,308
Loans and receivables due from banks	1,462,934	347,638	548,352	115,907	1,036	2,475,867
Other money market placements	550,207	-	-	-	-	550,207
Financial assets at fair value through profit and loss	144,540	120,348	198,001	224,847	-	687,736
Derivatives used for hedging purposes	-	-	10,370	50,430	-	60,800
Available-for-sale financial assets	249,908	630,428	1,208,130	2,378,674	21,131	4,488,271
Loans and receivables	12,843,594	2,473,349	6,898,372	21,846,183	296,272	44,357,770
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	6,077	-	6,077
Factoring receivables	690,303	372,816	264,141	-	9,466	1,336,726
Held-to-maturity investments	-	-	-	317,360	-	317,360
Premises and equipment	-	-	-	-	326,119	326,119
Intangible assets	-	-	-	-	56,583	56,583
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	181,154	181,154
Other assets	2,413	580	100	88	1,350,069	1,353,250
Total assets	**24,570,207**	**3,945,159**	**9,127,466**	**24,939,566**	**2,662,475**	**65,244,873**
Liabilities:						
Deposits from other banks	723,554	603,921	2,122	-	-	1,329,597
Customers' deposits	33,766,614	4,880,585	280,179	131,855	-	39,059,233
Other money market deposits	1,756,987	-	-	-	-	1,756,987
Factoring payables	7,832	-	-	-	-	7,832
Financial liabilities at fair value through profit and loss	124,634	76,352	129,180	118,492	-	448,658
Derivatives used for hedging purposes	-	442	32,509	280,919	-	313,870
Marketable securities issued	165,887	262,196	563,500	-	-	991,583
Funds borrowed	2,840,105	3,991,877	3,410,941	1,993,678	-	12,236,601
Other liabilities	1,225,895	174	3,318	-	1,064,189	2,293,576
Provisions	-	-	334	-	203,704	204,038
Income taxes payable	-	3,292	83,863	-	-	87,155
Total liabilities	**40,611,508**	**9,818,839**	**4,505,946**	**2,524,944**	**1,267,893**	**58,729,130**
Net liquidity gap	**(16,041,301)**	**(5,873,680)**	**4,621,520**	**22,414,622**	**1,394,582**	**6,515,743**
As at 31 December 2013						
Total assets	20,341,739	2,856,310	8,867,066	21,291,904	2,452,007	55,809,026
Total liabilities	31,182,059	9,621,476	5,501,809	2,384,223	1,295,579	49,985,146
Net liquidity gap	**(10,840,320)**	**(6,765,166)**	**3,365,257**	**18,907,681**	**1,156,428**	**5,823,880**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustments	Total
As of 31 December 2014								
Customers' deposits	5,932,632	27,912,117	4,929,278	285,773	138,130	928	(139,625)	39,059,233
Deposits from other banks	40,299	683,459	604,257	2,202	-	-	(620)	1,329,597
Funds borrowed	-	2,849,136	3,999,797	3,509,075	735,781	1,797,708	(654,896)	12,236,601
Other money market deposits	-	1,758,172	-	-	-	-	(1,185)	1,756,987
Marketable securities issued	-	166,386	271,503	585,728	-	-	(32,034)	991,583
Factoring payable	-	7,832	-	-	-	-	-	7,832
Total	**5,972,931**	**33,377,102**	**9,804,835**	**4,382,778**	**873,911**	**1,798,636**	**(828,360)**	**55,381,833**
As of 31 December 2013								
Customers' deposits	5,937,860	19,882,934	7,469,878	604,875	156,448	-	(154,421)	33,897,574
Deposits from other banks	107,038	1,492,314	28,556	8,591	-	-	(927)	1,635,572
Funds borrowed	-	1,605,691	1,823,724	4,322,872	906,174	1,915,467	(792,831)	9,781,097
Other money market deposits	-	1,062,666	-	-	-	-	(223)	1,062,443
Marketable securities issued	-	-	286,905	455,069	-	-	(31,698)	710,276
Factoring payable	-	8,012	-	-	-	-	-	8,012
Total	**6,044,898**	**24,051,617**	**9,609,063**	**5,391,407**	**1,062,622**	**1,915,467**	**(980,100)**	**47,094,974**

Analysis of contractual expiry by maturity of the Group's some class of derivative financial instruments;

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As of 31 December 2014						
Hedging Portfolio						
Fair value hedge	-	14,542	452,124	225,274	-	691,940
Cash flow hedge	23,264	99,107	365,013	543,056	68	1,030,508
Trading Portfolio						
Forward contracts	1,017,883	1,010,757	1,238,720	761,673	34,250	4,063,283
Currency swaps	7,736,262	2,913,414	3,504,691	2,240,117	117,201	16,511,685
Interest rate swaps	1,226	7,676	156,261	75,159	669	240,991
Foreign currency options-sell	2,604,407	1,993,953	4,179,510	12,714	-	8,790,584
Total	**11,383,042**	**6,039,449**	**9,896,319**	**3,857,993**	**152,188**	**31,328,991**
As of 31 December 2013						
Hedging Portfolio						
Fair value hedge	-	497,383	7,718	124,002	-	629,103
Cash flow hedge	16,296	3,458	131,843	102,146	630	254,373
Trading Portfolio						
Forward contracts	1,706,709	943,466	1,412,272	371,446	-	4,433,893
Currency swaps	3,311,054	3,332,033	2,732,970	1,016,684	-	10,392,741
Interest rate swaps	14,002	16,075	42,538	38,654	3,100	114,369
Foreign currency options-sell	2,416,106	2,995,020	4,581,282	11,501	-	10,003,909
Total	**7,464,167**	**7,787,435**	**8,908,623**	**1,664,433**	**3,730**	**25,828,388**

Market Risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by Banking Regulation and Supervision Agency (BRSA), Capital Markets Board and other authorities. Only securities held to maturity are valued at amortized cost using internal rate of return.

The Board of Directors evaluates the probable risks and accordingly determines limits. Those limits are revised periodically in line with the strategies of the Group. The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

The Group Risk Management calculates and follows the several market risk limits set by the Board of Directors. Some of those are VaR, PV01, Interest Rate Delta and Vega limits. Finally, nominal stop loss and position limits for each product have been set.

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

27. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group evaluates the exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate fluctuations in the market.

The Board of Directors sets limits for the positions, which are followed up on a daily basis. Additionally, any possible changes in positions are closely monitored.

Generally, Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	Turkish Lira	Euro	US Dollars	Other	Total
As at 31 December 2014					
Assets:					
Cash and balances with central banks	912,537	1,749,303	5,041,862	922,606	8,626,308
Loans and receivables due from banks	1,275,637	499,309	627,827	73,094	2,475,867
Other money market placements	550,207	-	-	-	550,207
Financial assets at fair value through profit and loss	656,383	15,142	16,133	78	687,736
Derivatives used for hedging purposes	60,800	-	-	-	60,800
Available-for-sale financial assets	4,309,078	84,964	88,080	6,149	4,488,271
Loans and receivables	33,994,801	4,185,406	5,292,114	885,449	44,357,770
Remeasurement adjustment on interest rate risk hedged portfolios	6,077	-	-	-	6,077
Factoring receivables	828,875	364,130	137,674	6,047	1,336,726
Held-to-maturity investments	317,360	-	-	-	317,360
Premises and equipment	317,199	8,920	-	-	326,119
Intangible assets	55,710	873	-	-	56,583
Goodwill	420,645	-	-	-	420,645
Deferred tax asset	179,463	1,691	-	-	181,154
Other assets	1,135,431	172,694	44,084	1,041	1,353,250
Total assets	**45,020,203**	**7,082,432**	**11,247,774**	**1,894,464**	**65,244,873**
Liabilities:					
Deposits from other banks	583,118	579,319	77,771	89,389	1,329,597
Customers' deposits	26,749,574	3,417,128	7,993,550	898,981	39,059,233
Other money market deposits	1,756,987	-	-	-	1,756,987
Financial liabilities at fair value through profit and loss	420,578	18,556	9,458	66	448,658
Derivatives used for hedging purposes	313,870	-	-	-	313,870
Factoring payables	1,995	5,071	194	572	7,832
Marketable securities issued	696,679	-	294,904	-	991,583
Funds borrowed	1,013,430	6,354,275	3,656,375	1,212,521	12,236,601
Other liabilities	2,108,045	71,362	113,081	1,088	2,293,576
Provisions	203,427	286	321	4	204,038
Income taxes payable	87,155	-	-	-	87,155
Total liabilities	**33,934,858**	**10,445,997**	**12,145,654**	**2,202,621**	**58,729,130**
Net balance sheet position	**11,085,345**	**(3,363,565)**	**(897,880)**	**(308,157)**	**6,515,743**
Off-balance sheet position					
Net notional amount of derivatives	(3,823,689)	3,394,046	430,800	208,043	209,200
Non-cash loans (*)	5,409,460	2,613,474	3,936,175	140,526	12,099,635
Net position	**7,261,656**	**30,481**	**(467,080)**	**(100,114)**	**6,724,943**
At 31 December 2013					
Total assets	37,666,746	7,451,144	8,770,143	1,920,993	55,809,026
Total liabilities	29,605,731	9,386,509	8,997,324	1,995,582	49,985,146
Net balance sheet position	**8,061,015**	**(1,935,365)**	**(227,181)**	**(74,589)**	**5,823,880**
Off-balance sheet position					
Net notional amount of derivatives	(2,384,092)	2,755,072	90,997	110,776	572,753
Non-cash loans (*)	4,752,585	3,090,581	3,703,730	149,050	11,695,946
Net position	**5,676,923**	**819,707**	**(136,184)**	**36,187**	**6,396,633**

(*) There is no effect on the net off-balance sheet position.

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

27. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table indicates in detail the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	**Increase /(Decrease) Effect on profit or loss**		**Increase /(Decrease) Effect on equity excluding PL**	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013
USD	10 increase	(46,641)	(13,286)	6	(60)
USD	10 decrease	46,641	13,286	(6)	60
EUR	10 increase	3,230	82,628	103	(127)
EUR	10 decrease	(3,230)	(82,628)	(103)	127

The Group's sensitivity to foreign currency rates has not changed significantly during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of a change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of a change in market interest rates. The Group evaluates the exposure for the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position.

Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The ALCO is responsible of managing interest rate risk at the Bank.

The first principle of the Group regarding interest rate risk is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board of Directors, ALCO and the Audit Committee.

Maturities of outstanding assets are based on the contractual characteristics of the transactions.

i) The Bank only economic value differences resulted from interest rate instabilities calculated according to "Regulation on measurement and evaluation of interest rate risk resulted from the banking accounts as per standard shock method"

Type of Currency	**Shock Applied (+/- x basis point)**	**Gains/ (Losses)**	**Gains/Equity– (Losses)/Equity**
TRY	(400)	787,367	%10.34
TRY	500	(850,320)	%(11.17)
EURO	(200)	24,024	%0.32
EURO	200	(21,301)	%(0.28)
USD	(200)	74,226	%0.97
USD	200	(64,730)	%(0.85)
Total (of negative shocks)	**(800)**	**885,617**	**%11.63**
Total (of positive shocks)	**900**	**(936,351)**	**%(12.30)**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2014						
Assets :						
Cash and balances with central banks	750,697	-	-	-	7,875,611	8,626,308
Loans and receivables due from banks	1,461,707	347,490	562,379	102,027	2,264	2,475,867
Other money market placements	550,207	-	-	-	-	550,207
Financial assets at fair value through profit and loss	46,909	24,359	56,716	131,374	428,378	687,736
Derivatives used for hedging purposes	-	-	10,370	50,430	-	60,800
Available-for-sale financial assets	581,136	1,011,391	1,739,495	1,135,118	21,131	4,488,271
Loans and receivables	12,999,447	2,754,870	6,879,398	21,427,784	296,271	44,357,770
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	6,077	-	6,077
Factoring receivables	690,303	372,816	264,141	-	9,466	1,336,726
Held-to-maturity investments	-	-	-	317,360	-	317,360
Premises and equipment	-	-	-	-	326,119	326,119
Intangible assets	-	-	-	-	56,583	56,583
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	181,154	181,154
Other assets	838	-	-	-	1,352,412	1,353,250
Total Assets	**17,081,244**	**4,510,926**	**9,512,499**	**23,170,170**	**10,970,034**	**65,244,873**
Liabilities:						
Deposits from other banks	683,255	603,921	2,122	-	40,299	1,329,597
Customers' deposits	28,310,143	4,880,585	280,179	131,857	5,456,469	39,059,233
Other money market deposits	1,756,987	-	-	-	-	1,756,987
Financial liabilities at fair value through profit and loss	11,608	2,279	15,720	60,521	358,530	448,658
Derivatives used for hedging purposes	-	442	32,509	280,919	-	313,870
Factoring payables	-	-	-	-	7,832	7,832
Marketable securities issued	165,887	262,196	563,500	-	-	991,583
Funds borrowed	3,506,466	4,983,523	3,488,935	257,677	-	12,236,601
Other liabilities	-	-	-	-	2,293,576	2,293,576
Provisions	-	-	-	-	204,038	204,038
Income taxes payable	-	-	-	-	87,155	87,155
Total liabilities	**34,434,346**	**10,732,946**	**4,382,965**	**730,974**	**8,447,899**	**58,729,130**
Balance sheet interest sensitivity gap	**(17,353,102)**	**(6,222,020)**	**5,129,534**	**22,439,196**	**2,522,135**	**6,515,743**
As at 31 December 2013						
Total assets	14,428,902	3,785,665	8,724,600	19,294,801	9,575,058	55,809,026
Total liabilities	25,102,756	11,091,116	5,131,259	473,970	8,186,045	49,985,146
Net interest sensitivity gap	**(10,673,854)**	**(7,305,451)**	**3,593,341**	**18,820,831**	**1,389,013**	**5,823,880**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Group's consolidated capital adequacy ratio is 13.79% (31 December 2013: 13.99%) in accordance with the related Communiqué as of 31 December 2014.

	Consolidated		Parent Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Capital Requirement for Credit Risk (CRCR)	4,155,469	3,685,022	3,965,965	3,488,023
Capital Requirement for Market Risk (CRMR)	78,051	88,399	59,032	69,240
Capital Requirement for Operational Risk (CROR)	357,590	319,382	337,591	300,586
Common Equity Tier 1 Capital	5,883,126	-	5,595,694	-
Tier 1 Capital	5,883,167	-	5,595,694	-
Tier 2 Capital	2,040,496	-	2,028,685	-
Deductions from Capital	9,555	-	9,555	-
Total Capital	7,914,108	7,156,976	7,614,824	6,860,593
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	13.79	13.99	13.96	14.23
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	10.25	-	10.26	-
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	10.25	-	10.26	-

Operational Risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate and/or failed internal process and systems, arising from negligence or fraud of the staff members or stemming from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning, business continuity and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

The Compliance Function in Group Companies

The definition of compliance is adherence to statutory and regulatory provisions, professional and ethical standards, guidelines issued by the Board of Directors and Audit Committee and internal rules and procedures.

The Compliance Function is responsible for the coordination of permanent control among the Group in respect of the risk of non-compliance and operational risk. It shares this responsibility with other Functions like Risk Management, Legal, Operations, and Finance for their areas of competence. Its missions and responsibilities and delegations of powers it grants are specified in a responsibilities charter.

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

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

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

	Carrying amount		Fair value	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Financial assets				
Loans and receivables due from banks	2,475,867	2,008,553	2,475,867	2,008,553
Other money market placements	550,207	245	550,207	245
Loans and receivables	44,357,770	37,464,109	44,422,499	37,733,561
Investment securities held-to-maturity	317,360	292,956	341,671	288,676
Factoring receivables	1,336,726	1,093,443	1,336,726	1,093,443
Financial liabilities				
Deposits from other banks and funds borrowed	13,566,198	11,416,669	13,566,280	11,417,154
Customers' deposits	39,059,233	33,897,574	39,064,041	33,898,640
Other money market deposits	1,756,987	1,062,443	1,756,987	1,062,443

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.

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits and Borrowings

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

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

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

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

• Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

• Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

• Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Values (continued)

31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss	90,434	597,302	-	687,736
Debt instruments	90,434	-	-	90,434
Derivatives held-for-trading	-	597,302	-	597,302
Derivatives used for hedging purposes	-	60,800	-	60,800
Available-for-sale financial assets	4,459,355	17,011	-	4,476,366
Debt instruments	4,392,990	7,785	-	4,400,775
Available-for-sale equity securities (*)	66,365	9,226	-	75,591
Remeasurement adjustment on interest rate risk hedged portfolios	-	6,077	-	6,077
Total	**4,549,789**	**681,190**	**-**	**5,230,979**
Financial liabilities at fair value through profit and loss				
Derivatives held-for-trading	-	448,658	-	448,658
Derivatives used for hedging purposes	-	313,870	-	313,870
Total	**-**	**762,528**	**-**	**762,528**

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss	654,847	729,270	-	1,384,117
Debt instruments	654,847	-	-	654,847
Derivatives held-for-trading	-	729,270	-	729,270
Derivatives used for hedging purposes	-	112,245	-	112,245
Available-for-sale financial assets	4,381,464	16,852	-	4,398,316
Debt instruments	4,358,860	7,626	-	4,366,486
Available-for-sale equity securities (*)	22,604	9,226	-	31,830
Remeasurement adjustment on interest rate risk hedged portfolios	-	3,404	-	3,404
Total	**5,036,311**	**861,771**	**-**	**5,898,082**
Financial liabilities at fair value through profit and loss				
Derivatives held-for-trading	-	482,831	-	482,831
Derivatives used for hedging purposes	-	69,438	-	69,438
Total	**-**	**552,269**	**-**	**552,269**

(*) TL 11,905 (31 December 2013: TL 10,569) carried at cost is not included in the table.

There is no transition between Level 1 and Level 2 in the current year.

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

29. SUBSEQUENT EVENTS

(i) BNP Paribas Fortis Yatırımlar Holding A.Ş., BNP Paribas Yatırımlar Holding A.Ş., BNP Paribas and TEB Holding A.Ş. acting jointly as the "Controlling Shareholders" according to the Communiqué of the Capital Markets Board No. II-27.2 on Squeeze-out and Sell-Out Rights ("Communiqué"), hold 96.005% of the voting rights of TEB.

Pursuant to Temporary Article 1 of the Communiqué, "the right to sell" and the "squeeze-out right" have become exercisable following the purchase of an additional share by BNP Paribas Fortis Yatırımlar Holding A.Ş, one of the Controlling Shareholders, on 14 November 2014.

Within the three-month statute of limitations that started on 14 November 2014, the date of the purchase of the additional shares(14 November 2014 - 16 February 2015), any shareholders other than the Controlling Shareholders are entitled to sell their shares of TEB to BNP Paribas Fortis Yatırımlar Holding A.Ş. which is one of the Controlling Shareholders.

Three-months statute of limitation started as of 14 November 2014 during which the right to sell may have been exercised pursuant to sub clause one of Article 5 of the Communiqué, has ended on 16 February 2015.

The number and capital share rates of the shareholders who have exercised their right to sell between the dates 14 November 2014 – 16 February 2015 are listed below:

Number of Shareholders Requesting to Exercise Right to Sell	Total Amount of Lots (Nominal TRY)	Capital Share Rate (%)	Total Amount Paid for the Right to Sell (TRY)
241	83,591,008.912	3.792	203,711,288.80

Shareholding structure of TEB indicating the capital share rates of our controlling shareholders as of 17 February 2015 is as below:

Name / Title of the Shareholder	Capital Share (TRY)	Capital Share (%)
TEB Holding A.Ş.	1,212,414,500.00	55.00
BNPP Yatırımlar Holding A.Ş.	518,342,498.52	23.514
BNP Paribas Fortis Yatırımlar Holding A.Ş.	463,901,510.51	21.043
BNP Paribas SA	5,253,352.00	0.238
Other	4,478,138.97	0.203
Total	2,204,390,000.00	100.00

BNP Paribas Fortis Yatırımlar Holding A.Ş. has applied to TEB on 18 February 2015, in order to exercise its squeeze out right on the shareholders except our Controlling Shareholders and the one shareholder qualified as state institution or enterprise for which the provisions of the Communiqué shall not apply unless otherwise requested as per paragraph 1 of Article 8 of the Communiqué, over TL 2.0032 which is the price determined as per paragraph 2 of Article 6 of the Communiqué.

The procedure, as part of the Communiqué, regarding the squeeze out right and in this respect de-quotation of TEB's shares from Borsa İstanbul A.Ş. will be carried out by TEB and any progress will be notified to the public.

(ii) The bond issued under Euro Medium Term Note Program by TEB on 17 February 2015 with a nominal value of USD 23,000,000 with due date of 21 May 2015 has started to be publicly traded in bonds and bill market with the ISIN code "XS1190642873".