TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2014
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

1. We have audited the accompanying consolidated financial statements of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2014 and consolidated profit or loss and other 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.

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

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı 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.

Other matter

5. The consolidated financial statements of the Group as of 31 December 2013 were audited by other auditors whose audit report dated 24 March 2014 expressed an unqualified opinion on those statements.

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

Zeynep Uras, SMMM
Partner

Istanbul, 25 March 2015

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

	Notes	31 December 2014	31 December 2013
ASSETS			
Cash and balances with Central Banks	6	25,328,522	22,140,480
Financial assets at fair value through profit or loss	7	450,241	663,232
Loans and advances to banks	9	564,915	165,504
Loans and advances to customers	10	106,555,401	89,175,046
Investment securities	12	23,830,408	22,155,267
Investments in associates	13	229,602	191,794
Property and equipment	14	986,922	1,018,847
Intangible assets	14	162,340	128,130
Current tax assets		9,331	6,014
Deferred tax assets	23	329,672	198,603
Other financial assets	15	545,184	453,861
Other assets	15	3,834,486	3,010,055
Total assets		**162,827,024**	**139,306,833**
LIABILITIES AND EQUITY			
Trading liabilities	7	270,627	219,480
Deposits from banks	17	5,220,355	4,298,991
Deposits from customers	18	88,511,777	78,783,217
Obligations under repurchase agreements	8	16,185,302	14,580,345
Funds borrowed	19	16,260,650	12,306,664
Debt securities issued	20	10,384,708	6,820,735
Subordinated liabilities	21	2,126,436	1,964,663
Other liabilities and provisions	22	7,535,295	6,589,617
Current tax liabilities	23	249,940	61,399
Deferred tax liabilities	23	15,208	3,978
Total liabilities		**146,760,298**	**125,629,089**
Equity attributable to owners of the parent			
Share capital		3,300,146	3,300,146
Share premium		724,316	724,316
Reserves		1,701,584	878,806
Retained earnings		9,721,220	8,366,271
Total equity attributable to owners of the parent		**15,447,266**	**13,269,539**
Non-controlling interests	25	**619,460**	**408,205**
Total equity		**16,066,726**	**13,677,744**
Total liabilities and equity		**162,827,024**	**139,306,833**
Commitments and contingencies	30	**55,819,223**	**37,966,608**

The notes on pages 7 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Notes	1 January - 31 December 2014	1 January - 31 December 2013
Interest income			
Interest on loans and receivables		9,472,448	7,683,665
Interest on securities		2,025,523	1,474,554
- *Trading financial assets*		*11,215*	*13,599*
- *Available-for-sale financial assets*		*1,479,262*	*1,093,019*
- *Held-to-maturity investments*		*535,046*	*367,936*
Interest on deposits at banks		69,167	60,814
Interest on money market placements		931	906
Other interest income		61,138	82,199
Total interest income		**11,629,207**	**9,302,138**
Interest expense			
Interest on deposits		(5,033,143)	(3,537,998)
Interest on money market deposits		(925,913)	(387,285)
Interest on funds borrowed		(243,009)	(175,752)
Interest expense on securities issued		(445,715)	(257,758)
Other interest expense		(151,171)	(169,076)
Total interest expense		**(6,798,951)**	**(4,527,869)**
Net interest income		**4,830,256**	**4,774,269**
Fee and commission income		1,109,383	948,333
Fee and commission expense		(434,927)	(319,380)
Net fee and commission income		**674,456**	**628,953**
Other operating income			
Net trading income		139,659	256,211
Net foreign exchange gains		110,374	1,620
Other income	27	1,309,192	1,049,046
Total other operating income		**1,559,225**	**1,306,877**
Other administrative and operating expenses			
Salaries and employee benefit expenses	28	(1,538,500)	(1,396,955)
Incurred loan losses, net of recoveries		(1,077,627)	(1,123,750)
Depreciation and amortisation		(131,347)	(128,323)
Taxes other than on income		(105,366)	(87,296)
Other expenses	29	(2,204,736)	(1,881,486)
Total other administrative and operating expenses		**(5,057,576)**	**(4,617,810)**
Share of profit of associates accounted for using the equity method		32,447	28,299
Profit before income tax		**2,038,808**	**2,120,588**
Income tax expense	23	(363,117)	(376,585)
Profit for the year		**1,675,691**	**1,744,003**

The notes on pages 7 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Notes	31 December 2014	31 December 2013
Other comprehensive income			
Items that will never be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		(43,696)	(29,915)
Related tax		8,739	5,983
		(34,957)	**(23,932)**
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(16,843)	73,458
Net change in fair value of available for sale financial assets		668,303	(770,071)
Net change in fair value of available for sale financial assets transferred to profit or loss		168,110	(246,196)
Related tax	25	(161,957)	88,224
Other comprehensive income for the year, net of income tax		**622,656**	**(878,517)**
Total comprehensive income for the year		**2,298,347**	**865,486**
Profit attributable to:			
Owners of the Bank		1,664,304	1,767,839
Non-controlling interest	25	11,387	(23,836)
Profit for the year		**1,675,691**	**1,744,003**
Total comprehensive income attributable to:			
Owners of the Bank		2,290,761	881,977
Non-controlling interest		7,586	(16,491)
Total comprehensive income for the year		**2,298,347**	**865,486**
Basic and diluted Earnings per share on profit for the year (full TL)	24	0.0067	0.0070

The notes on pages 7 to 89 are an integral part of these consolidated financial statements.

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

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

	Attributable to Owners of the Parent								
			Reserves						
	Share Capital	Share premium	Fair value reserves	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2014	**3,300,146**	**724,316**	**(168,236)**	**133,175**	**913,867**	**8,366,271**	**13,269,539**	**408,205**	**13,677,744**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**1,664,304**	**1,664,304**	**11,387**	**1,675,691**
Other comprehensive income									
Re-measurements of defined benefit plans	-	-	-	-	-	(33,294)	(33,294)	(1,663)	(34,957)
Foreign currency translation differences	-	-	-	(14,705)	-	-	(14,705)	(2,138)	(16,843)
Net change in fair value of available for sale financial assets, net of tax	-	-	506,346	-	-	-	506,346	-	506,346
Fair value differences of available for sale financial assets transferred to profit or loss	-	-	168,110	-	-	-	168,110	-	168,110
Other items	-	-	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**674,456**	**(14,705)**	**-**	**(33,294)**	**626,457**	**(3,801)**	**622,656**
Total comprehensive income for the period	**-**	**-**	**674,456**	**(14,705)**	**-**	**1,631,010**	**2,290,761**	**7,586**	**2,298,347**
Transfer to reserves	-	-	-	-	164,345	(164,345)	-	-	-
Dividends paid	-	-	-	-	-	(100,000)	(100,000)	(2,371)	(102,371)
Other items	-	-	-	-	(1,318)	(11,716)	(13,034)	206,040	193,006
Total contributions by and distributions to owners of the parent, recognized directly in equity	**-**	**-**	**-**	**-**	**163,027**	**(276,061)**	**(113,034)**	**203,669**	**90,635**
Balances at 31 December 2014	**3,300,146**	**724,316**	**506,220**	**118,470**	**1,076,894**	**9,721,220**	**15,447,266**	**619,460**	**16,066,726**

The notes on pages 7 to 89 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Attributable to Owners of the Parent								
			Reserves						
	Share capital	Share premium	Fair value reserves	Translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2013	**3,300,146**	**724,320**	**873,807**	**67,062**	**752,778**	**6,756,136**	**12,474,249**	**464,896**	**12,939,145**
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	**1,767,839**	**1,767,839**	**(23,836)**	**1,744,003**
Other comprehensive income									
Re-measurements of defined benefit plans, net of tax	-	-	-	-	-	(23,932)	(23,932)	-	(23,932)
Foreign currency translation differences	-	-	-	66,113	-	-	66,113	7,345	73,458
Net changes in fair value of available for sale financial assets, net of tax	-	-	(789,430)	-	-	114,000	(675,430)	-	(675,430)
Net losses on available for sale financial assets transferred to profit or loss, net of tax	-	-	(252,613)	-	-	-	(252,613)	-	(252,613)
Total other comprehensive income	**-**	**-**	**(1,042,043)**	**66,113**	**-**	**90,068**	**(885,862)**	**7,345**	**(878,517)**
Total comprehensive income for the year	**-**	**-**	**(1,042,043)**	**66,113**	**-**	**1,857,907**	**881,977**	**(16,491)**	**865,486**
Transactions with owners, recorded directly in equity									
Transfer to reserves	-	(4)	-	-	147,776	(147,772)	-	-	-
Dividends paid	-	-	-	-		(100,000)	(100,000)	(292)	(100,292)
Other	-	-	-	-	13,313	-	13,313	(39,908)	(26,595)
Total contributions by and distributions to owners	**-**	**(4)**	**-**	**-**	**161,089**	**(247,772)**	**(86,687)**	**(40,200)**	**(126,887)**
Balances at 31 December 2013	**3,300,146**	**724,316**	**(168,236)**	**133,175**	**913,867**	**8,366,271**	**13,269,539**	**408,205**	**13,677,744**

The notes on pages 7 to 89 are an integral part of these consolidated financial statements.

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

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

	Notes	1 January - 31 December 2014	1 January - 31 December 2013
Cash flows from operating activities:			
Profit for the year		1,675,691	1,744,003
Adjustments for:			
Income tax expense	24	363,117	376,585
Provision for incurred loan losses, net of recoveries		1,077,627	1,123,750
Depreciation and amortization	15	131,347	128,323
Provision for short term employee benefits	29	231,829	259,492
Provision for retirement pay liability and unused vacations	29	88,672	27,951
Unearned premium reserve	28	152,978	54,860
Change in provision for outstanding claims	30	74,332	115,144
Long term insurance contracts	30	-	2,240
Other provision expenses	30	27,660	16,390
Net interest income		(4,830,256)	(4,774,269)
Share of profit of equity-accounted investees		(32,447)	(28,299)
Income from sale of fixed assets		-	(53,924)
Currency translation differences		(7,360)	73,458
Other non-cash adjustments		(362,775)	(1,258,722)
		(1,409,585)	**(2,193,018)**
Loans and advances to banks		(399,411)	149,521
Reserve deposits		(8,047,658)	(6,433,676)
Financial assets at fair value through profit or loss		212,991	(371,238)
Loans and advances to customers		(17,066,370)	(20,315,859)
Other assets		7,254,236	(841,052)
Deposits from banks		917,985	50,923
Deposits from customers		9,716,788	14,490,631
Obligation under repurchase agreements		1,612,885	6,077,359
Other liabilities and provisions		152,686	610,271
		(5,645,868)	**(6,583,120)**
Interest received		10,816,159	8,598,872
Interest paid		(6,576,771)	(4,034,511)
Taxes paid		(556,581)	(499,720)
Cash used in operating activities		**(3,372,646)**	**(4,711,497)**
Cash flows from investing activities:			
Dividends received	9	11,421	18,017
Acquisition of property and equipment		(196,480)	(251,706)
Proceeds from the sale of property and equipment		70,972	23,940
Acquisition of intangible assets		(47,804)	(42,270)
Acquisition of investment securities		(7,677,250)	(7,989,497)
Proceeds from sale of investment securities		8,338,036	4,693,315
Cash provided/(used in) by investing activities		**498,895**	**(3,548,201)**
Cash flows from financing activities:			
Proceeds from issue of subordinated liabilities		-	-
Proceeds from issue of debt securities		8,540,424	8,721,903
Repayments of debt securities		(5,028,368)	(4,318,460)
Proceeds from share capital increase		-	-
Repayments of funds borrowed		8,538,258	9,280,348
Proceeds from funds borrowed		(4,588,544)	(4,588,544)
Dividends paid		(102,371)	(100,292)
Cash provided by financing activities		**7,359,399**	**8,994,955**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(16,843)	(9,013)
Net increase/(decrease) in cash and cash equivalents		4,468,805	726,244
Cash and cash equivalents at the beginning of the year		20,645,504	19,919,260
Cash and cash equivalents at the end of the year		**25,114,309**	**20,645,504**

The notes on pages 7 to 89 are an integral part of these consolidated financial statements.

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

1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank or the Parent") was established under the authorization of special law numbered 6219, called "the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed.
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 890 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2013: 856 domestic, 3 foreign, in total 859 branches). Additionally, the Bank has control over a bank located in Austria. As at 31 December 2014, the Bank has 14,920 (31 December 2013: 14,943) employees. The Bank's head office is located at Sanayi Mahallesi, Eski Büyükdere Caddesi, Güler Sokak, No:51, Kağıthane- İstanbul.

The shareholder holding control over the Bank is the General Directorate of the Registered Foundations and Appendant Foundations represented by the Turkish Republic General Directorate of the Foundations which is set up under Prime Ministry of Turkish Republic having 58.45% of the Bank's outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank. The shares of the Bank are quoted to Borsa İstanbul A.Ş. (BIST) and trade publicly.

As at 31 December 2014 and 2013, The Bank's paid-in capital amounted to TL 2,500,000, divided into 250.000.000.000 shares with a nominal value of 1 Kuruş each (TL 1 equals Kuruş 100). As at 31 December 2014 and, the Bank's shareholders' structure is as follows:

Shareholders	**Number of the shares (100 units)**	**Nominal amount**	**Share (%)**
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Appendant foundations (Group B)	386,224,784	386,225	15.45
Other appendant foundations (Group B)	3,096,742	3,097	0.13
Other registered foundations (Group B)	1,453,085	1,453	0.06
Other real persons and legal entities (Group C)	1,533,786	1,534	0.06
Publicly traded (Group D)	630,080,297	630,080	25.20
Paid-in capital	**2,500,000,000**	**2,500,000**	**100.00**
Adjustment to share capital		800,146	
Total		**3,300,146**	

The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until 1 January 2006.

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

1. GENERAL INFORMATION (Continued)

These consolidated financial statements were approved for issue on 25 March 2015.

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 31 December 2014 and 31 December 2013:

31 December 2014	**Direct Shareholding Interest (%)**	**Indirect Shareholding Interest (%)**
Subsidiaries:		
Güneş Sigorta AŞ (*)	36.35	36.35
Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ (*)	22.89	32.91
Vakıf Emeklilik AŞ	53.90	75.30
Vakıf Enerji ve Madencilik AŞ	65.50	84.96
Taksim Otelcilik AŞ	51.00	51.52
Vakıf Finans Factoring Hizmetleri AŞ	78.39	86.99
Vakıf Finansal Kiralama AŞ	58.71	64.40
Vakıf Yatırım Menkul Değerler AŞ	99.00	99.44
Vakıf Portföy Yönetimi AŞ	99.99	99.99
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ (*)	38.70	40.64
World Vakıf UBB Ltd in Liquidation (**)	82.00	85.25
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası AŞ	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as “World Vakıf UBB Ltd. in Liquidation”. Therefore, the financial statements of the subsidiary have not been consolidated as at 31 December 2014 and 31 December 2013.

For the purposes of these consolidated financial statements, the Bank and its consolidated subsidiaries described below are referred to as the “Group”:

Güneş Sigorta A.Ş. was established under the leadership of the Bank and Soil Products Office in 1957. The subsidiary provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection and loan insurance. Its head office is in Istanbul.

1. GENERAL INFORMATION (Continued)

Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. was established in 1991 in Istanbul. The main activity of the subsidiary is to invest in a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Vakıf Emeklilik A.Ş. was established under the name Güneş Hayat Sigorta AŞ in 1991. In 2003 the subsidiary has taken conversion permission from the related regulatory bosy and started to operate both in pension business. Its head office is in Istanbul.

Vakıf Enerji ve Madencilik A.Ş. was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik A.Ş. was established under the Turkish Commercial Code in 1966. The main activity of the subsidiary is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

Vakıf Finans Factoring Hizmetleri A.Ş. was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

Vakıf Finansal Kiralama A.Ş. was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler A.Ş. was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi A.Ş. operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıf International AG was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna, Austria.

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The subsidiary's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in Ankara.

The Bank has also the following associates:

Kıbrıs Vakıflar Bankası Ltd. Şti. was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

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.

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations as of 1 January 2014, where applicable, noted below:

2.2 New and Revised International Financial Reporting Standards

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

- 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.

- 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.

- 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.

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- 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’

- 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’.

- IFRS 14, Regulatory deferral accounts, effective from annual periods beginning on or after January 2014 and effective for annual periods beginning on or after 1 January 2016. IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

- 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.

- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortization, effective from annual periods beginning on or after 1 January 2016. This amendment 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)

- 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.

- 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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

- IFRS 15 ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2017. The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

- 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.

  Classification under IFRS 9 for investments in debt instruments is driven by the entity’s business model for managing financial assets and their contractual cash flow characteristics. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. There are three classification categories for debt instruments: amortised cost, fair value through other comprehensive income (‘FVOCI’) and fair value through profit or loss (‘FVPL’). A financial asset is measured at amortised cost if it both of the criteria is met; (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent ‘solely payments of principal and interest’ (‘SPPI’) (that is, it has only “basic loan features”). Financial assets included within this category are initially recognized at fair value and subsequently measured at amortised cost. A financial asset is measured at fair value through other comprehensive income (FVOCI) if both of the following criteria are met; the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and The asset’s contractual cash flows represent SPPI. Financial assets included within this category are initially recognized and subsequently measured at fair value. Movements in the carrying amount should be taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. Where the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Fair value through profit or loss ('FVPL') is the residual category. Financial assets should be classified as FVPL if they do not meet the criteria of FVOCI or amortized cost. Financial assets included within the FVPL category should be measured at fair value with all changes taken through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- 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.

- 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.

- 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.

- Disclosure Initiative Amendments to IAS 1, effective from annual periods beginning on or after December 2014 and effective for annual periods on or after 1 January 2016. The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognized and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28, effective from annual periods beginning on or after December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

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2.3 Summary of Significant Accounting Policies, Judgments and Estimates

Accounting in hyperinflationary countries

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

Functional and Presentation Currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 3 (i) - impairment of financial assets.

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

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

Collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or for small portfolios with insufficient information, a formula approach based on historic loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimates the amount of loss. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date.

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 advances to customers as of 31 December 2014 is TL 106,555,401 (31 December 2013: TL 89,175,046) net of impairment allowance of TL 4,838,962 (31 December 2013: TL 3,731,355).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collective allowance for groups of assets that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Investments in equity securities were evaluated for impairment on the basis described in Note 3 (i) - *impairment of financial assets*.
An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Fair value

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

The Group's accounting policy on fair value measurements is discussed in (i) - *Measurement*.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm’s length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the Subsidiaries.

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. 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. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries are fully consolidated from the date of acquisition, being 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.

Companies where the Bank exercises significant influence, but not control are accounted for using the equity method.

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

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents functional currency of the group's entities except for World Vakıf UBB Ltd and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates ruling at the end of reporting period with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

- The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the end of the respective reporting period.
- The income and expenses of foreign operations are translated to TL using average exchange rates.
- Foreign currency differences arising from the translation of the financial statements of the foreign operations into TL for consolidation purpose are recognized in other comprehensive income and accumulated in the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the full amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Interest

Interest income and expense are recognized in the consolidated profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis,
- interest on available-for-sale investment securities on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

(d) Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy *(s)*) are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Net trading income

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

(f) Dividends

Dividend income is recognized when the right to receive the income is established. Dividends are reflected as a component of other operating income.

(g) Leases

The Group as the lessee

<u>*Operating leases*</u>

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

<u>*Finance leases*</u>

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

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

The Group as the lessor

<u>*Finance leases*</u>

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

(h) Income taxes

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Corporate tax

Turkey

Statutory income is subject to corporate tax at 20.0%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

75% of gains on disposal of equity shares and immovables which were held for at least 2 years within the assets of acquired entities after acquisition are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open to inspection for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue assessments based on their findings.

Foreign subsidiary

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred taxes

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities outside a business combination which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to set off current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities related to same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

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

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue tax assessments based on their findings.

Investment incentives

As per the provisional Article no. 69, effective from 1 January 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated 8 April 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on 31 December 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at 31 December 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with the decision taken by the Turkish Constitutional Court on 15 October 2009, the "2006, 2007 and 2008 …." clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the 8 January 2010 Official Gazette number 27456. Accordingly, the Group's subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per "Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws" accepted on 23 July 2010 at the Grand National Assembly of Turkey, the expression of "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date" has been amended as "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date" and the following expression of " Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate" has been added. This Law has been published in the Official Gazette on 1 August 2010.

The clause "The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income" which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the 9 February 2012 dated decisions no: E.2010/93 and K.2012/20.

(i) Financial instruments

Recognition

The Group initially recognises loans and advances and deposits on the date which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

Classification

Financial assets at fair value through profit or loss are trading financial assets acquired principally with the intention of disposal within a short period for the purpose of short-term profit making and *derivative financial instruments*. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss under other liabilities and provisions.

Held-to-maturity investment securities are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. These include certain debt securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group's financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Available-for-sale financial assets are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

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

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortized cost less impairment losses. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Gains and losses on subsequent measurement

Gains and losses arising on investment held for trading are recognized in profit and loss.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognized as other comprehensive income in the fair value reserve for available-for-sale financial assets. When the financial assets are sold, collected or otherwise disposed of, the related cumulative gain or loss recognized in the other comprehensive income is transferred to profit or loss. Interest earned whilst holding available-for-sale financial assets, held-to-maturity securities and financial assets at fair value through profit or loss is reported as interest income in the consolidated statement of comprehensive income.

De-recognition

A financial asset is derecognized when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Available-for-sale financial assets and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on de-recognition.

Held-to-maturity assets and loans and receivables are derecognized on the date they are transferred by the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting

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

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

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

Investment securities: Investment securities are the financial assets that are classified as held-to-maturity financial assets and available-for-sale financial assets.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Finance lease receivables: Leases where substantially all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest method. Finance lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortised cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits, funds borrowed, debt securities issued and subordinated liabilities: Deposits, funds borrowed, debt securities issued and subordinated liabilities are the Group's sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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 is granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(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:

- adverse changes in the payment status of borrowers; or
- 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 non-performing.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured considering the amount that could 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 profit or loss.

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount.

Assets carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. 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 profit or loss.

(j) Repurchase transactions

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

(k) Property and equipment

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

Gains/losses arising from the disposal of the property and equipment are recognized in profit or loss and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	Estimated useful lives (years)	Depreciation Rates (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Vehicles obtained through finance leases	4-5	20-25

(l) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both. The Group holds investment property as a consequence of the ongoing operations of its consolidated real estate and insurance companies.

Investment properties are measured initially at cost including transaction costs.

(m) Intangible assets

The Group's intangible assets consist of software programmes. Intangible assets are recorded at cost.

The costs of the intangible assets purchased before 31 December 2005 are restated for the effects of inflation from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortised based on straight line amortisation. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortisation rates applied are between 33.33% and 6.66%.

(n) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

(p) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

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

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	**Employee %**
Pension contributions	11.0	9.0
Medical benefit contributions	7.5	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 (“Banking Law”) as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labour and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 (“Decree”) for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey (“Turkish Parliament”) worked on the new legal arrangements by taking the cancellation reasoning into account.

On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the “Social Insurance and General Health Insurance Law no. 5510’’ published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. Accordingly, the process will have to be completed until 8 May 2015.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial evaluation:

The technical financial statements of the Fund are audited by the certified actuary according to the “Actuaries Regulation” which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated January 2015, there is no technical or actual deficit determined which requires provision against.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transferable Retirement and Health Liabilities:	**31 December 2014**	**31 December 2013**
Net Present Value of Transferable Retirement Liabilities	(3,830,972)	(3,444,908)
Net Present Value of Transferable Retirement and Health Contributions	2,571,496	2,379,904
General Administration Expenses	(57,671)	(54,741)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(1,317,147)	(1,119,745)
Fair Value of Plan Assets (2)	3,949,235	3,454,588
Asset Surplus over Transferable Benefits ((2)-(1)=(3))	2,632,088	2,334,843
Non-Transferable Benefits (4) *	(1,003,169)	(797,805)
Asset Surplus over Total Benefits ((3)-(4))	1,628,919	1,537,038

(*) Non Transferable Benefits: Non Transferable Benefits are accepted to be continued after the transition of the Transferable Benefits to the SSI and be stated as liability in the Fund's articles (ruled by the law 5510, Provisional Article 20).

Actuarial assumptions used in valuation of Non Transferable Benefits based on IAS 19 are as follows:

Discount Rates	**31 December 2014**	**31 December 2013**
Benefits Transferable to SSI	9.80%	9.80%
Non Transferable Benefits	3.00%	3.00%

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	1,731,636,547	1,603,775,282
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	9,459,019	9,459,019
Tangible assets*	1,976,352,665	1,644,303,766
Other	231,787,140	197,050,333
Total	**3,949,235,371**	**3,454,588,400**

(*) The Tangible assets value indicates all the stocks' and real estate properties' market values, as of December 31, 2014

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(r) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognized at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

(s) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognized as revenue, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are net of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognized as revenue. Premiums for such contracts are recognized directly as liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends ("Actuarial Chain Ladder Method"). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Receivables from reinsurance activities: In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. There receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies. Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment contracts: Premiums received for such contracts are recognized directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortised on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(t) Individual pension business

Individual pension system receivables presented under 'other assets' in the accompanying consolidated financial statements consists of 'receivable from pension investment funds for investment management fees', 'entrance fee receivable from participants' and 'receivables from the clearing house on behalf of the participants'. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated profit or loss and other comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants' contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years 'staying period'. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognise the entrance fee as revenue.

(u) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated profit or loss and other comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There are no potentially dilutive instruments. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

(v) Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(w) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

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

Risk management framework

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

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated 28 June 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

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 are excluded from the internal rating system of the Bank. The risks that are subject to rating models can be allocated as follows:

Category as of 31 December 2014	Share in the Total %
Above average	40.81
Average	45.24
Below average	2.82
Unrated	11.13
Total	**100.00**

Exposure to credit risk

	Loans and advances to customers		Other assets expose to credit risk (inc. financial assets other than loans and advances to customers)	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Individually impaired	4,377,740	3,822,880	71,092	104,171
Specific impairment	(3,486,879)	(2,977,836)	(56,480)	(79,756)
Carrying amount	**890,861**	**845,044**	**14,612**	**24,415**
Past due but not impaired	3,883,127	330,438	-	18,573
Carrying amount	**3,883,127**	**330,438**	**-**	**18,573**
Neither past due nor impaired	101,948,402	88,136,055	67,123,501	54,984,651
Loans with renegotiated terms	1,185,094	617,028	-	-
Carrying amount	**103,133,496**	**88,753,083**	**67,123,501**	**54,984,651**
Collective impairment	(1,352,083)	(753,519)		-
Total carrying amount	**106,555,401**	**89,175,046**	**67,138,113**	**55,027,639**

As at 31 December 2014 and 2013, the Group has no allowance for loans and advances to banks and investment securities.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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)	23,951,613	20,984,035
Financial assets at fair value through profit or loss	450,241	663,232
Loans and advances to banks	564,915	165,504
Loans and advances to customers	106,555,401	89,175,046
Investment securities	23,830,408	22,155,267
Other financial assets	545,184	453,861
Other assets	3,834,486	3,010,055
Total	**159,732,248**	**136,607,000**
Financial guaranties	28,675,047	23,406,706
Loan commitments	27,144,176	14,559,902
Total	**55,819,223**	**37,966,608**
Total credit risk exposure	**215,551,471**	**174,573,608**

Sectorial distribution of the performing loans and advances to customers

	31 December 2014		**31 December 2013**	
	Amount	**%**	**Amount**	**%**
Consumer loans	30,201,036	28.23	25,024,694	28.09
Mortgage loans	*14,296,545*	*13.36*	*12,005,935*	*13.48*
General purpose loans	*11,771,140*	*11.00*	*8,870,034*	*9.96*
Overdraft checking accounts	*1,454,910*	*1.36*	*556,502*	*0.62*
Auto loans	*433,433*	*0.41*	*909,700*	*1.02*
Other consumer loans	*2,245,008*	*2.10*	*2,682,523*	*3.01*
Manufacturing	10,549,177	9.86	12,425,384	13.95
Wholesale and retail trade	24,253,574	22.66	14,252,643	16.00
Transportation and telecommunication	9,625,212	8.99	8,643,600	9.70
Construction	7,409,653	6.92	8,881,832	9.97
Credit cards	4,926,370	4.60	3,837,261	4.31
Hotel, food and beverage services	1,316,239	1.23	1,700,277	1.91
Financial institutions	1,247,420	1.17	1,528,288	1.72
Agriculture and stockbreeding	912,676	0.85	2,020,682	2.27
Health and social services	2,350,042	2.20	814,538	0.91
Others	14,225,224	13.29	9,954,322	11.17
Total performing loans and advances to customers	**107,016,62**	**100.00**	**89,083,521**	**100.00**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

The classification of financial assets based on their credit risks;

31 December 2014	**Neither past due nor impaired**	**Past due or individually impaired, net**	**Allowance for collective impairment**	**Total**
Financial assets at fair value through profit or loss	450,241			450,241
Loans and advances to banks	564,915			564,915
Loans and advances to customers	107,016,623	4,377,740	(4,838,962)	106,555,401
Commercial	*72,027,371*	*2,946,431*	*(3,256,855)*	*71,716,947*
Consumer	*30,242,057*	*1,237,115*	*(1,367,453)*	*30,111,719*
Credit Cards	*1,774,690*	*72,597*	*(80,246)*	*1,767,041*
Other	*2,972,505*	*121,597*	*(134,408)*	*2,959,694*
Investment securities	23,830,408			23,830,408
Total	**131,862,187**	**4,377,740**	**(4,838,962)**	**131,400,965**

31 December 2013	**Neither past due nor impaired**	**Past due or individually impaired, net**	**Allowance for collective impairment**	**Total**
Financial assets at fair value through profit or loss	663,232			663,232
Loans and advances to banks	165,504			165,504
Loans and advances to customers	89,083,521	3,822,880	(3,731,355)	89,175,046
Commercial	*57,726,558*	*2,477,245*	*(2,417,936)*	*57,785,867*
Consumer	*25,024,694*	*1,073,896*	*(1,048,185)*	*25,050,405*
Credit Cards	*3,837,261*	*164,670*	*(160,728)*	*3,841,203*
Other	*2,495,008*	*107,069*	*(104,506)*	*2,497,571*
Investment securities	22,155,267			22,155,267
Total	**112,067,524**	**3,822,880**	**(3,731,355)**	**112,159,049**

Impaired loans and receivables

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

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower’s financial position and where the Group has made concessions that it would not otherwise consider.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

	31 December 2014	31 December 2013
Loans and receivables		
Commercial	795,685	484,295
Consumer	381,197	384,983
Credit Cards	8,212	6,308
Total	**1,185,094**	**875,586**

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The consolidated subsidiaries write off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures has been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Bank has not adopted a policy to write-off loans.

Set out below is an analysis of the gross and net (of specific impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Other assets	
31 December 2014	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Grade 3 : Individually Impaired	306,778	245,959	-	-
Grade 4 : Individually Impaired	727,063	176,689	4,485	3,806
Grade 5 : Individually Impaired	3,343,899	468,213	66,607	10,806
Total	**4,377,740**	**890,861**	**71,092**	**14,612**

	Loans and advances to customers		Other assets	
31 December 2013	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Grade 3 : Individually Impaired	412,200	329,125	-	-
Grade 4 : Individually Impaired	661,776	226,825	8,150	7,775
Grade 5 : Individually Impaired	2,748,904	289,094	96,021	16,640
Total	**3,822,880**	**845,044**	**104,171**	**24,415**

(*) Impaired insurance receivables are included in "Grade 4" and "Grade 5" in above table.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Collateral policy

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

The breakdown of performing cash loans and advances to customers and non-cash loans (financial guarantee contracts) by type of collateral are as follows:

Cash loans	**31 December 2014**	**31 December 2013**
Secured loans:	79,022,845	63,878,349
Secured by mortgages	*32,404,989*	*18,194,791*
Secured by cash collateral	*684,191*	*384,250*
Guarantees issued by financial institutions	*94,178*	*194,111*
Secured by government institutions or government securities	*929,239*	*228,099*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*44,910,248*	*44,877,098*
Unsecured loans	27,993,778	25,205,172
Total performing loans and advances to customers	**107,016,623**	**89,083,521**

Non-cash loans (financial guarantee contracts)	**31 December 2014**	**31 December 2013**
Secured loans:	12,534,623	10,500,592
Secured by mortgages	*1,092,714*	*679,079*
Secured by cash collateral	*383,649*	*85,773*
Guarantees issued by financial institutions	-	*5,408*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*11,058,260*	*9,730,332*
Unsecured loans	16,140,424	12,906,114
Total non-cash loans	**28,675,047**	**23,406,706**

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

	31 December 2014	**31 December 2013**
Cash collateral(*)	-	-
Mortgages	1,223,252	934,918
Promissory notes(*)	-	728
Others(**)	361,068	524,515
Total	**1,584,320**	**1,460,161**

(*) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small / zero in the table.

(**) Sureties obtained for impaired loans are not presented in this table.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

	31 December 2014		31 December 2013	
Sectorial concentration	**Amount**	**%**	**Amount**	**%**
Consumer loans	873,793	19.96	629,003	16.45
Construction	875,244	19.99	311,126	8.14
Textile	481,390	11.00	220,488	5.77
Food	126,146	2.88	370,206	9.68
Service sector	63,594	1.45	26,435	0.69
Agriculture and stockbreeding	385,029	8.80	101,728	2.66
Metal and metal products	63,923	1.46	119,769	3.13
Durable consumer goods	88,757	2.03	73,056	1.91
Financial institutions	9,900	0.23	15,325	0.40
Others	1,409,964	32.21	1,955,744	51.17
Total non-performing loans and advances to customers	**4,377,740**	**100**	**3,822,880**	**100.00**

	31 December 2014		31 December 2013	
Geographical concentration	**Amount**	**%**	**Amount**	**%**
Turkey	4,352,894	99.43	3,800,133	99.40
Austria	8,709	0.20	22,622	0.60
Germany	16,137	0.37	-	
Other	-	-	125	-
Total non-performing loans and advances to customers	**4,377,740**	**100**	**3,822,880**	**100.00**

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
31 December 2014							
	Derivatives - trading assets	379,576	-	379,576	-	379,576	-
	Reverse Repurchase agreements	5,859	-	5,859	5,859	-	-
31 December 2013							
	Derivatives - trading assets	438,395	-	438,395	-	438,395	-
	Reverse Repurchase agreements	1,000	-	1,000	1,000	-	-

	Types of financial liabilities	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral given	Net amount
31 December 2014							
	Derivatives - trading liabilities	270,627	-	270,627	-	270,627	-
	Repurchase agreements	16,185,302	-	16,185,302	15,991,697	193,605	-
31 December 2013							
	Derivatives - trading liabilities	219,480	-	219,480	-	219,480	-
	Repurchase agreements	14,580,345	-	14,580,345	14,187,704	392,641	-

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Transferred of Financial Assets Held or Pledged as Collaterals

	31 December 2014		31 December 2013	
Asset pledged	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Balances with other banks	210,719	-	1,493,655	-
Trading securities	18,657	-	113,651	-
-Legal requirements	*18,657*	-	*113,651*	-
Investment securities	3,043,416	-	827,331	-
- available-for-sale	1,978,570	-	503,361	-
-Legal requirements	*1,978,570*	-	*503,361*	-
- held-to-maturity	1,064,846	-	323,970	-
-Legal requirements	*1,064,846*	-	*323,970*	-

	31 December 2014		31 December 2013	
Transferred asset that are not de-recognized	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Investment securities				
-Available for sale portfolio	11,801,059	11,665,207	11,301,427	10,348,674
-repurchase agreement	*11,801,059*	*11,665,207*	*11,301,427*	*10,348,674*
Investment securities				
-Held to maturity portfolio	5,629,267	4,520,095	4,831,230	4,231,671
-repurchase agreement	*5,629,267*	*4,520,095*	*4,831,230*	*4,231,671*
Total	**17,430,326**	**16,185,302**	**16,132,657**	**14,580,345**

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

31 December 2014	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	21,034,058	4,181,566	112,898	-	-	-	25,328,522
Financial assets at fair value through profit or loss	4,515	70,737	84,570	9,113	255,401	25,905	450,241
Loans and advances to banks	-	38,739	163,118	363,058	-	-	564,915
Loans and advances to customers	747,191	9,691,443	4,031,930	18,992,277	48,105,495	24,987,065	106,555,401
Investment securities	-	29,371	736,238	2,005,400	8,933,679	12,021,005	23,725,693
Other financial assets	545,184	-	-	-	-	-	545,184
Other assets	87,335	881,126	110	4,868	101,736	986,102	2,061,277
Total assets	**22,418,283**	**14,892,982**	**5,128,864**	**21,374,716**	**57,396,311**	**38,020,077**	**159,231,233**
Trading liabilities	-	127,878	23,050	11,320	43,074	65,305	270,627
Deposits from banks	66,930	4,658,116	472,397	22,912	-	-	5,220,355
Deposits from customers	16,987,146	44,830,633	19,065,572	6,895,393	714,711	18,322	88,511,777
Obligations under repurchase agreements	-	15,396,871	233,330	349,241	-	205,860	16,185,302
Funds borrowed	-	1,504,848	1,084,623	6,685,709	3,217,955	3,767,515	16,260,650
Debt securities issued	-	717,590	2,146,764	2,358,634	5,161,720	-	10,384,708
Subordinated liabilities	-	-	-	-	-	2,126,436	2,126,436
Current tax liabilities	-	-	248,173	1,767	-	-	249,940
Other liabilities and provisions	1,277,362	3,204,244	78,610	19,126	816	18,270	4,598,428
Total liabilities	**18,331,438**	**70,440,180**	**23,352,519**	**16,344,102**	**9,138,276**	**6,201,708**	**143,808,223**
Net	**4,086,845**	**(55,547,198)**	**(18,223,655)**	**5,030,614**	**48,258,035**	**31,818,369**	**15,423,010**

31 December 2013	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	21,514,042	430,043	194,325	2,070	-	-	22,140,480
Financial assets at fair value through profit or loss	20,635	132,269	115,723	178,757	204,534	11,314	663,232
Loans and advances to banks	-	5,091	31,349	90,594	38,470	-	165,504
Loans and advances to customers	91,525	9,004,692	3,455,871	15,464,531	41,580,546	19,577,881	89,175,046
Investment securities	114,183	1,211,856	1,148,855	2,766,032	7,568,749	9,345,592	22,155,267
Other financial assets	453,861	-	-	-	-	-	453,861
Other assets	73,244	985,777	63,385	58,484	89,830	461,885	1,732,605
Total assets	**22,267,490**	**11,769,728**	**5,009,508**	**18,560,468**	**49,482,129**	**29,396,672**	**136,485,995**
Trading liabilities	-	90,300	19,257	20,364	32,747	56,812	219,480
Deposits from banks	25,537	3,300,869	869,432	103,153	-	-	4,298,991
Deposits from customers	13,879,873	38,643,943	19,294,057	6,040,869	898,335	26,140	78,783,217
Obligations under repurchase agreements	-	12,528,096	237,295	1,005,685	809,269	-	14,580,345
Funds borrowed	-	347,503	767,445	6,298,088	2,480,525	2,413,103	12,306,664
Debt securities issued	-	401,592	1,427,439	1,726,684	3,265,020	-	6,820,735
Subordinated liabilities	-	-	-	111,788	388,211	1,464,664	1,964,663
Current tax liabilities	-	-	61,399	-	-	-	61,399
Other liabilities and provisions	170,497	2,871,412	57,078	-	-	-	3,098,987
Total liabilities	**14,075,907**	**58,183,715**	**22,733,402**	**15,306,631**	**7,874,107**	**3,960,719**	**122,134,481**
Net	**8,191,583**	**(46,413,987)**	**(17,723,894)**	**3,253,837**	**41,608,022**	**25,435,953**	**14,351,514**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Residual contractual maturities of the financial liabilities

31 December 2014	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
Trading Liabilities	270,627	270,627	-	127,878	23,050	11,320	43,074	65,305
Deposits from banks	5,220,355	5,224,151	66,930	4,659,544	473,665	24,012	-	-
Deposits from customers	88,511,777	89,071,829	16,987,146	44,956,783	19,269,411	7,074,231	762,575	21,683
Obligations under repurchase agreements	16,185,302	16,196,415	-	15,404,379	233,628	351,133	-	207,275
Funds borrowed	16,260,650	17,263,831	-	1,511,280	1,092,397	6,771,654	3,519,833	4,368,667
Debt securities issued	10,384,708	11,236,567	-	713,864	2,166,332	2,401,993	5,954,378	-
Subordinated liabilities	2,126,436	3,078,646	-	-	-	-	-	3,078,646
Other financial liabilities	4,753,714	4,704,559	1,547,591	3,060,074	75,466	4,860	816	15,752
Total	**143,713,569**	**147,046,625**	**18,601,667**	**70,433,802**	**23,333,949**	**16,639,203**	**10,280,676**	**7,757,328**
Loan guaranties	28,675,047	28,675,047	243,079	835,912	16,443,803	6,930,286	3,538,426	683,541
Loan commitments	27,144,176	27,144,176	27,144,176	-	-	-	-	-
Total Loan guaranties and commitments	**55,819,223**	**55,819,223**	**27,387,255**	**835,912**	**16,443,803**	**6,930,286**	**3,538,426**	**683,541**

31 December 2013	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
Trading Liabilities	219,480	219,480	-	93,751	17,423	47,110	32,757	28,439
Deposits from banks	4,298,991	4,309,731	25,537	3,302,429	876,802	104,963	-	-
Deposits from customers	78,783,217	79,333,404	13,879,873	38,743,408	19,480,650	6,216,492	981,498	31,483
Obligations under repurchase agreements	14,580,345	14,606,825	-	12,531,308	237,537	1,011,566	826,414	-
Funds borrowed	12,306,664	13,016,125	-	362,435	823,117	6,414,978	2,592,692	2,822,903
Debt securities issued	6,820,735	7,572,794	-	400,920	1,436,319	1,775,217	3,960,338	-
Subordinated liabilities	1,964,663	2,966,040		-	-	115,560	462,240	2,388,240
Other financial liabilities	3,098,987	3,098,987	170,497	2,871,412	57,078	-	-	-
Total	**122,073,082**	**125,123,386**	**14,075,907**	**58,305,663**	**22,928,926**	**15,685,886**	**8,855,939**	**5,271,065**
Loan guaranties	23,406,706	23,406,706	264,268	370,339	13,670,929	5,657,505	2,788,347	655,318
Loan commitments	14,559,902	14,559,902	14,559,902	-	-	-	-	-
Total Loan guaranties and commitments	**37,966,608**	**37,966,608**	**14,824,170**	**370,339**	**13,670,929**	**5,657,505**	**2,788,347**	**655,318**

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

(d) Market risk

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

Management of market risk

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

Exposure to market risk - trading portfolios

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

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Average, highest and lowest values of consolidated market risks for the years ended 31 December 2014 and 2013, calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012, are as follows:

	31 December 2014			31 December 2013		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	13,531	16,953	11,352	14,166	18,276	9,186
Common share risk	1,895	6,896	759	2,832	4,374	2,147
Currency risk	30,771	44,194	15,679	43,364	60,952	31,803
Option risk	1,677	3,804	42	232	929	-
Counter party risk	9,912	11,892	8,464	4,396	7,439	-
Total value at risk	**722,326**	**917,761**	**514,258**	**812,380**	**1,149,630**	**539,200**

Exposure to interest rate risk – non-trading portfolios

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

31 December 2014	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash and cash equivalents	6,016,124	104,898	-	-	-	19,207,500	25,328,522
Loans and advances to banks	100,906	270,160	193,849	-	-	-	564,915
Loans and advances to customers	32,105,647	22,597,164	21,965,248	18,574,756	10,599,348	713,238	106,555,401
Investment securities	2,948,678	3,592,447	8,422,088	4,622,261	4,177,339	67,595	23,830,408
Other financial assets	-	-	-	-	-	545,184	545,184
Other assets	15,993	110	4,868	47,165	528	2,013,217	2,081,881
Total assets	**41,187,348**	**26,564,779**	**30,586,053**	**23,244,182**	**14,777,215**	**22,546,734**	**158,906,311**
Trading liabilities	127,878	23,050	11,320	43,074	65,305	-	270,627
Deposits from banks	4,658,116	472,397	22,912	-	-	66,930	5,220,355
Deposits from customers	45,015,178	19,158,621	6,861,948	709,034	18,322	16,748,674	88,511,777
Obligations under repurchase agreements	15,396,871	233,330	349,241	-	205,860	-	16,185,302
Funds borrowed	4,063,185	7,002,548	3,733,893	717,541	743,483	-	16,260,650
Debt securities issued	718,111	2,146,929	2,579,188	4,940,480	-	-	10,384,708
Subordinated liabilities	-	-	121,216	421,313	1,583,907	-	2,126,436
Current tax liabilities	-	-	656	-	-	249,284	249,940
Other liabilities and provisions	20,257	6,936	390	-	-	4,572,921	4,600,504
Total liabilities	**69,999,596**	**29,043,811**	**13,680,764**	**6,831,442**	**2,616,877**	**21,637,809**	**143,810,299**
Net	**(28,812,248)**	**(2,479,032)**	**16,905,289**	**16,412,740**	**12,160,338**	**908,925**	**15,096,012**

31 December 2013	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash and cash equivalents	430,043	194,325	2,070	-	-	21,514,042	22,140,480
Loans and advances to banks	5,091	31,349	90,594	38,470	-	-	165,504
Loans and advances to customers	26,273,959	19,401,166	17,126,529	16,667,918	9,613,949	91,525	89,175,046
Investment securities	6,267,212	2,868,011	4,704,066	3,791,872	4,409,923	114,183	22,155,267
Other financial assets						453,861	453,861
Other assets	13,463	85	10,506	74,246	425	1,633,880	1,732,605
Total assets	**32,989,768**	**22,494,936**	**21,933,765**	**20,572,506**	**14,024,297**	**23,807,491**	**135,822,763**
Trading liabilities	100,329	19,257	20,364	22,718	56,812	-	219,480
Deposits from banks	3,300,869	869,432	103,153	-	-	25,537	4,298,991
Deposits from customers	38,643,943	19,294,057	6,040,869	898,335	26,140	13,879,873	78,783,217
Obligations under repurchase agreements	12,528,096	237,295	1,005,685	809,269	-	-	14,580,345
Funds borrowed	703,291	4,553,844	5,636,666	691,124	721,739	-	12,306,664
Debt securities issued	401,592	1,427,439	1,726,684	3,265,020	-	-	6,820,735
Subordinated liabilities	-	-	111,788	388,211	1,464,664		1,964,663
Current tax liabilities	-	-	-	-	-	61,399	61,399
Other liabilities and provisions	-	-	-	-	-	3,327,500	3,327,500
Total liabilities	**55,678,120**	**26,401,324**	**14,645,209**	**6,074,677**	**2,269,355**	**17,294,309**	**122,362,994**
Net	**(22,688,352)**	**(3,906,388)**	**7,288,556**	**14,497,829**	**11,754,942**	**6,513,182**	**13,459,769**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended 31 December 2014 and 2013:

31 December 2014	US Dollar %	EUR %	TL%
Cash and cash equivalents	0.33	0.29	3.22
Financial assets at fair value through profit or loss	11.78	5.5	11.45
Loans and advances to banks	0.16	0.53	10.47
Loans and advances to customers	5.39	4.19	12.7
Investment securities	6.73	4.27	6.62
Deposits from banks	0.42	0.66	9.07
Deposits from customers	2.13	1.98	9.22
Obligations under repurchase agreements	0.95	-	9.79
Debt securities issued	3.45	3.47	9.06
Subordinated liabilities	6	-	-
Funds borrowed	1.67	1.13	8.44

31 December 2013	US Dollar %	EUR %	TL%
Cash and cash equivalents	0.35	0.10	9.43
Financial assets at fair value through profit or loss	7.21	5.26	10.11
Loans and advances to banks	3.24	3.43	9.04
Loans and advances to customers	6.88	5.17	13.49
Investment securities	7.05	5.77	11.11
Deposits from banks	0.71	1.00	8.21
Deposits from customers	2.51	2.71	8.16
Obligations under repurchase agreements	1.19	0.37	7.62
Debt securities issued	4.06	1.53	8.74
Subordinated liabilities	6.00	-	-
Funds borrowed	1.66	1.19	8.26

Currency risk

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

Management of currency risk

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

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	2.95	2.14
31 December 2014	2.82	2.32

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Measurement Frequency of Interest Rate Risk

Interest rate risk arising from banking book accounts is calculated in accordance with "Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique" published in the 23 August 2011 dated Official Gazette no. 28034. Legal limit is monthly monitored and reported accordingly.

The economic value changes arising from the interest rate fluctuations which are measured according to "Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique" are presented in the below table:

Currency Unit-Current Period	**Applied Shock (+/- x base point)**	**Gain/ Loss**	**Gain/ Equity-Loss/ Equity**
1. TL	500 / (400)	(2,440,546) / 2,452,172	(13.54%) / 13.61%
2. EURO	200 / (200)	178,773 / (9,440)	0.99% / (0.05%)
3. USD	200 / (200)	441,639 / (383,071)	2.45% / (2.13%)
Total (For Negative Shocks)	-	**2,059,661**	**11.43%**
Total (For Positive Shocks)	-	**(1,820,134)**	**(10.10%)**

Currency Unit-Prior Period	**Applied Shock (+/- x base point)**	**Gain/ Loss**	**Gain/ Equity-Loss/ Equity**
1. TL	500 / (400)	(2,412,990) / 2,441,246	(15.89%) / 16.08%
2. EURO	200 / (200)	34,736 / 10,115	0.23% / 0.07%
3. USD	200 / (200)	457,473 / (383,076)	3.01% / (2.52%)
Total (For Negative Shocks)	-	**2,068,285**	**13.63%**
Total (For Positive Shocks)	-	**(1,920,781)**	**(12.65%)**

The above table is obtained from unconsolidated 31 December 2014 audit report announced at Public Disclosure Platform.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

31 December 2014	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and cash equivalents	13,824,924	2,044,420	4,354,203	20,223,547
Financial assets at fair value through profit or loss	34,669	4,432	-	39,101
Loans and advances to banks	108,352	190,505	-	298,857
Loans and advances to customers	22,205,699	8,394,909	28,389	30,628,997
Investment securities	3,071,394	819,967	-	3,891,361
Other financial assets	476,652	6,828	61,704	545,184
Other assets	561,144	576,957	2,117	1,140,218
Total foreign currency denominated monetary assets	**40,282,834**	**12,038,018**	**4,446,413**	**56,767,265**
Deposits from banks	2,770,136	640,393	16,518	3,427,047
Deposits from customers	12,421,038	9,221,134	948,581	22,590,753
Obligations under repurchase agreements	6,591,668	-	-	6,591,668
Debt securities issued	6,073,635	1,459,110	-	7,532,745
Funds borrowed	9,064,674	5,758,810	2,640	14,826,124
Subordinated liabilities	2,126,436	-	-	2,126,436
Other liabilities	1,126,870	250,194	45,321	1,422,385
Total foreign currency denominated monetary liabilities	**40,174,457**	**17,329,641**	**1,013,060**	**58,517,158**
Net statement of financial position	**108,377**	**(5,291,623)**	**3,433,353**	**(1,749,893)**
Net off balance sheet position	**372,635**	**5,171,951**	**(3,430,091)**	**2,114,495**
Net long/(short) position	**481,012**	**(119,672)**	**3,262**	**364,602**

31 December 2013	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and cash equivalents	10,050,381	5,756,941	3,821,717	19,629,039
Financial assets at fair value through profit or loss	31,441	6,266	-	37,707
Loans and advances to banks	186,388	-	-	186,388
Loans and advances to customers	16,720,867	7,365,082	58,146	24,144,095
Investment securities	2,829,761	1,039,732	-	3,869,493
Other financial assets	389,567	64,294	-	453,861
Other assets	753,296	484,748	4,724	1,242,768
Total foreign currency denominated monetary assets	**30,961,701**	**14,717,063**	**3,884,587**	**49,563,351**
Deposits from banks	2,168,866	482,090	2,370	2,653,326
Deposits from customers	9,438,650	8,724,869	1,128,265	19,291,784
Obligations under repurchase agreements	5,882,383	580,039	-	6,462,422
Debt securities issued	4,471,861	29,720	28,065	4,529,646
Funds borrowed	6,581,078	5,273,698	14,142	11,868,918
Subordinated liabilities	1,964,663	-	-	1,964,663
Other liabilities	1,128,134	264,765	20,590	1,413,489
Total foreign currency denominated monetary liabilities	**31,635,635**	**15,355,181**	**1,193,432**	**48,184,248**
Net statement of financial position	**(673,934)**	**(638,118)**	**2,691,155**	**1,379,103**
Net off balance sheet position	**736,064**	**506,406**	**(2,701,033)**	**(1,458,563)**
Net long/(short) position	**62,130**	**(131,712)**	**(9,878)**	**(79,460)**

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2014 and 2013 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2014		31 December 2013	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	48,101	48,101	6,213	6,213
EUR	(11,967)	(11,967)	(13,171)	(13,171)
Other currencies	326	326	(988)	(988)
Total, net	**36,460**	**36,460**	**(7,946)**	**(7,946)**

10 percent revaluation of the TL against the following currencies as at and for years ended 31 December 2014 and 2013 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2014		31 December 2013	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	(48,101)	(48,101)	(6,213)	(6,213)
EUR	11,967	11,967	13,171	13,171
Other currencies	(326)	(326)	988	988
Total, net	**(36,460)**	**(36,460)**	**7,946**	**7,946**

This analysis assumes that all other variables, in particular interest rates, remain constant.

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgement is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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 from customers

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 is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

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 advances to customers	106,555,401	89,175,046	106,402,288	88,890,117
Financial assets at fair value through profit or loss	450,241	663,232	450,241	663,232
Investment securities	23,830,408	22,155,267	23,959,408	22,045,424
Available-for-sale financial assets	*16,975,815*	*16,742,096*	*16,975,815*	*16,742,096*
Held-to-maturity investment securities	*6,854,593*	*5,413,171*	*6,983,593*	*5,523,014*
Financial liabilities				
Deposits from other banks	5,220,355	4,298,991	5,220,355	4,298,991
Deposits from customers	88,511,777	78,783,217	88,556,115	78,783,217
Funds borrowed	16,260,650	12,306,664	16,260,650	12,306,664

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

3. FINANCIAL RISK MANAGEMENT (Continued)

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset carried at fair value				
Financial assets at fair value through profit/loss				
Debt securities	10,798	55,355	-	66,153
Derivative financial assets held for trading purpose	-	379,576	-	379,576
Investment funds	2,947	-	-	2,947
Equity securities	1,565	-	-	1,565
Investment securities - available-for-sale				
Debt securities	15,378,036	1,493,064	1,260	16,872,360
Equity securities	-	-	62,112(*)	62,112
Asset for which fair values are disclosed-				
Debt securities – held-to-maturity	6,983,593	-	-	6,983,593
Total financial assets	**22,376,939**	**1,927,995**	**63,372**	**24,368,306**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(270,627)	-	(270,627)
Total financial liabilities	**-**	**(270,627)**	**-**	**(270,627)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset carried at fair value				
Financial assets at fair value through profit/loss				
Debt securities	146,661	69,686	-	216,347
Derivative financial assets held for trading purpose	-	438,395	-	438,395
Investment funds	5,467	-	-	5,467
Equity securities	2,996	-	27	3,023
Investment securities - available-for-sale				
Debt securities	14,981,029	1,666,128	-	16,647,157
Equity securities	3,158	-	54,823(*)	57,981
Asset for which fair values are disclosed				
Debt securities - held-to-maturity	5,303,328	-	-	5,303,328
Total financial assets	**20,442,639**	**2,174,209**	**54,850**	**22671698**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(219,480)	-	(219,480)
Total financial liabilities	**-**	**(219,480)**	**-**	**(219,480)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

	31 December	**31 December 2013**
Balance at the beginning of the year	54,850	42,676
Total gains or losses for the year recognized in profit or loss		-
Total gains or losses for the year recognized in other comprehensive income	8,522	12,174
Balance at the end of the year	**63,372**	**54,850**

(e) Operational risk

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

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

The data of operational losses may be exposed to during the Bank's activities is collected and analysed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in 28 June 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at 31 December 2014, value of consolidated operational risk amounted to TL 9,609,038 (31 December 2013: TL 9,561,025).

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management - regulatory capital

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

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

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

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2014 and 2013 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

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

	Consolidated		**Parent Bank**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Capital Requirement for Credit Risk (CRCR)	9,782,654	8,380,432	9,490,415	8,185,603
Capital Requirement for Market Risk (CRMR)	63,924	58,981	55,940	26,097
Capital Requirement for Operational Risk (CROR)	768,723	764,882	777,799	655,046
Common Equity Tier 1 Capital	14,824,597	-	14,646,457	-
Tier 1 Capital	14,694,809	-	14,533,844	-
Tier 2 Capital	3,639,371	-	3,600,527	-
Deductions from Capital	(121,208)	-	(121,208)	-
Total Capital	18,212,972	15,199,794	18,013,163	15,179,536
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	13.73	13.21	13.96	13.70
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	11.07	-	11.26	-
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	11.17	-	11.35	-

4. INSURANCE RISK MANAGEMENT

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

4. INSURANCE RISK MANAGEMENT (Continued)

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate theses risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,
ii) Long-term relationship approach,
iii) Competitive prices
iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

5. SEGMENT REPORTING

Operating segments

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

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

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking: Includes the Group's trading and corporate finance activities.

This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Insurance: Includes the Group's insurance business.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

Others: Includes combined information about operating segments that do not meet the quantitative thresholds.

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

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

5. SEGMENT REPORTING (Continued)

Information about operating segments

31 December 2014	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	3,574,283	5,821,752	-	-	9,396,035	-	80,776	-	1,288	9,478,099	(5,651)	9,472,448
Interest expense on deposit	(2,090,867)	(2,836,627)	(162,890)	-	(5,090,384)	-	-	-	-	(5,090,384)	57,241	(5,033,143)
Operating profit	**1,782,029**	**2,991,503**	**1,011,510**	**(616,002)**	**5,169,040**	**940,831**	**14,660**	**17,275**	**73,865**	**6,215,671**	**(196,914)**	**6,018,757**
Profit before income tax	1,006,380	1,449,945	569,760	(1,051,767)	1,974,318	35,068	912	12,050	34,327	2,056,675	(17,867)	2,038,808
Income tax expense	(177,017)	(255,037)	(100,217)	185,000	(347,271)	(10,536)	(4,733)	(284)	(293)	(363,117)	-	(363,117)
Profit for the year	829,363	1,194,908	469,543	(866,767)	1,627,047	24,532	(3,821)	11,766	34,034	1,693,558	(17,867)	1,675,691

31 December 2014	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	32,963,634	72,041,167	48,117,179	5,553,602	158,675,582	2,151,333	1,198,199	537,945	1,276,806	163,839,865	(1,242,443)	162,597,422
Investments in associates and subsidiaries	-	-	1,669,015	-	1,669,015	246,585	3,359	2,601	44,089	1,965,649	(1,705,691)	259,958
Investment in equity accounted investees	-	-	(30,356)	-	(30,356)	-	-	-	-	(30,356)	-	(30,356)
Total assets	32,963,634	72,041,167	49,755,838	5,553,602	160,314,241	2,397,918	1,201,558	540,546	1,320,895	165,775,158	(2,948,134)	162,827,024
Segment liabilities	38,649,556	55,659,039	44,040,940	5,851,750	144,201,285	1,988,291	1,096,587	448,827	296,132	148,031,122	(1,270,824)	146,760,298
Equity including non-controlling interest	-	-	-	16,112,956	16,112,956	409,627	104,971	91,719	1,024,763	17,744,036	(1,677,310)	16,066,726
Total liabilities and equity	**38,649,556**	**55,659,039**	**44,040,940**	**21,964,706**	**160,314,241**	**2,397,918**	**1,201,558**	**540,546**	**1,320,895**	**165,775,158**	**(2,948,134)**	**162,827,024**
Tangible fixed assets	-	-	-	204,782	204,782	-	-	-	-	-	-	204,782
Intangible fixed assets	-	-	-	47,256	47,256	-	-	-	-	-	-	47,256
Depreciation	-	-	-	93,539	93,539	-	-	-	-	-	-	93,539
Amortization	-	-	-	13,021	13,021	-	-	-	-	-	-	13,021

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

5. SEGMENT REPORTING (Continued)

31 December 2013	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	3,365,250	4,257,727	-		7,622,977		64,903		1199	7,689,079	(5,414)	7,683,665
Interest expense on deposit	(1,520,724)	(2,040,220)	-		(3,560,944)					(3,560,944)	22946	(3,537,998)
Operating profit	**1,165,607**	**494,283**	**626,880**	**(226,889)**	**2,059,881**	**(8,110)**	**(392)**	**(6,599)**	**14,395**	**2,059,175**	**61,413**	**2,120,588**
Profit before income tax	1,165,607	494,283	626,880	(226,889)	2,059,881	(8,110)	(392)	(6,599)	14,395	2,059,175	61,413	2,120,588
Income tax expense	(210,064)	(89,390)	(113,370)	40,900	(371,924)	(2,656)	1,799	(2,363)	(1,441)	(376,585)	-	(376,585)
Profit for the year	**955,543**	**404,893**	**513,510**	**(185,989)**	**1,687,957**	**(10,766)**	**1,407**	**(8,962)**	**12,954**	**1,682,590**	**61,413**	**1,744,003**

31 December 2013	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	30,419,715	57,705,309	28,820,060	19,418,704	136,363,788	2,028,716	1,063,300	171,851	789,003	140,416,658	(1,073,106)	139,343,552
Investments in associates and subsidiaries	-	-	1,533,958	-	1,533,958	213,972	3,356	2,322	19,805	1,773,413	(1,570,172)	203,241
Investment in equity accounted investees	-	-	(11,447)	-	(11,447)	-	-	-	-	(11,447)	-	(11,447)
Total assets	**30,419,715**	**57,705,309**	**30,342,571**	**19,418,704**	**137,886,299**	**2,242,688**	**1,066,656**	**174,173**	**808,808**	**142,178,624**	**(2,643,278)**	**139,535,346**
Segment liabilities	31,327,338	52,348,818	35,072,042	5,074,284	123,822,482	1,849,237	957,482	94,565	247,362	126,971,128	(1,113,526)	125,857,602
Equity including non-controlling interest	-	-	-	14,063,817	14,063,817	393,451	109,174	79,608	561,446	15,207,496	(1,529,752)	13,677,744
Total liabilities and equity	**31,327,338**	**52,348,818**	**35,072,042**	**19,138,101**	**137,886,299**	**2,242,688**	**1,066,656**	**174,173**	**808,808**	**142,178,624**	**(2,643,278)**	**139,535,346**
Tangible fixed assets	-	-	-	218,380	218,380	-	-	-	-	-	-	218,380
Intangible fixed assets	-	-	-	20,533	20,533	-	-	-	-	-	-	20,533
Depreciation	-	-	-	84,234	84,234	-	-	-	-	-	-	84,234
Amortization	-	-	-	7,565	7,565	-	-	-	-	-	-	7,565

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

6. CASH AND CASH EQUIVALENTS

As at 31 December 2014 and 2013, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

	31 December 2014	**31 December 2013**
Cash on hand	1,376,909	1,156,445
Due from Central Bank	16,157,726	14,542,489
Balances with the CBT excluding reserve deposits	4,282,966	3,250,746
Receivables from repurchase agreements	9,504	1,000
Loans and advances to banks with original maturity less than three months	3,426,867	2,904,662
Others	74,550	285,138
Total cash and cash equivalents in the consolidated statement of financial position	**25,328,522**	**22,140,480**
Accruals on cash and cash equivalents	(3,494)	(1,321)
Blocked bank deposits	(210,719)	(1,493,655)
Total cash and cash equivalents in the consolidated statement of cash flows	**25,114,309**	**20,645,504**

As at 31 December 2014, There is no balance of the additional reserve requirements of Central Bank of Turkey (“CBT”) as explained below in detail. (31 December 2013: TL 1,493,655). Remaining TL 210,719 blocked bank deposits consists of TL 110,168 held against the “Diversified Payment Rights” securitizations and TL 100,551 held against insurance liabilities of the Group in favour of the Turkish Treasury.

The Bank and CBT had disagreement about the reserve requirements deposited at CBT regarding the syndication loans obtained by foreign branches of the Bank. Subsequent to the decision, CBT required the Bank to provide reserve requirement for loans obtained by foreign branches, the Bank filed a claim in Ankara 15th Administrative Court for the suspension of execution and cancellation of the decision. As at 15 June 2011, the court decided on refusal of the claim with the right to appeal on State Council. CBT requested the Bank to provide additional reserves amounting to USD 384 million in average for 3.5 years period with the 4 May 2011 dated communiqué. In this context, the Bank has begun to provide additional reserve requirements at 27 May 2011.

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2014 and 2013, financial assets at fair value through profit or loss are as follows:

	31 December 2014		31 December 2013	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Debt instruments held at fair value:				
Government bonds in TL	100	103	107,712	113,306
Asset-backed securities	13,750	13,546	64,671	66,975
Eurobonds issued by the Turkish Government	6,139	8,468	13,400	15,740
Corporate bonds in TL	13,500	13,630	5,956	6,397
Bonds issued by banks	23,718	23,482	14,180	13,929
		59,229		**216,347**
Equity and other non-fixed income instruments:				
Derivative financial instruments held for trading purposes		379,576		438,395
Investment funds		9,871		5,467
Equity shares		1,565		3,023
		391,012		**446,885**
Total financial assets at fair value through profit or loss		**450,241**		**663,232**

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended 31 December 2014, net income from trading of financial assets (including investment securities) amounting to TL 139,659 (31 December 2013: TL 256,211) is included in "trading income, (net)"

The following table summarizes securities that were deposited as collateral with respect to various banking transactions:

	31 December 2014		31 December 2013	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	12,347	18,554	112,551	113,551
Deposited at Istanbul Stock Exchange for repurchase transactions	-	-	-	-
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	100	103	100	100
		18,657		**113,651**

Derivative financial instruments held for trading purposes

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

The table below shows the contractual amounts of derivative instruments analysed by the term to maturity. The contractual 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 contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates. The maturity analyses of the gross nominal value of derivatives are presented below:

	31 December 2014	**31 December 2013**
	Notional Amounts	**Notional Amounts**
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**22,773,909**	**18,988,231**
Currency Forwards	555,204	1,334,135
Currency Swaps	21,162,157	17,313,236
Currency Futures	-	-
Currency Options	1,056,548	340,860
Interest Rate Derivative Transactions	**7,478,238**	**4,146,151**
Interest Rate Forwards		-
Interest Rate Swaps	7,478,238	4,145,148
Interest Rate Options	-	-
Investment Security Options	-	1,003
Interest Rate Futures	-	-
Other Trading Derivatives	**6,780,167**	**3,962,577**
Total Derivative Transactions	**37,032,314**	**27,096,959**

	31 December 2014					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	8,805,023	2,322,843	234,800	389,279	-	11,751,945
Sales	4,120,339	2,317,964	237,650	383,615	-	7,059,568
Currency forwards:						-
Purchases	99,142	68,619	71,286	38,774	-	277,821
Sales	99,070	68,502	71,136	38,675	-	277,383
Cross currency interest rate swaps:						-
Purchases	63,456	58,000	-	1,172,493	-	1,293,949
Sales	46,667	37,825	-	972,203	-	1,056,695
Interest rate swaps:						
Purchases	-	-	-	1,202,149	2,536,970	3,739,119
Sales	-	-	-	1,202,149	2,536,970	3,739,119
Currency options:						
Purchases	242,712	90,791	194,771	-	-	528,274
Sales	242,710	90,790	194,774	-	-	528,274
Other:						-
Purchases	158,020	-	-	-	994,287	1,152,307
Sales	4,931,860	-	-	-	696,000	5,627,860
Total of purchases	**9,368,353**	**2,540,253**	**500,857**	**2,802,695**	**3,531,257**	**18,743,415**
Total of sales	**9,440,646**	**2,515,081**	**503,560**	**2,596,642**	**3,232,970**	**18,288,899**
Total of derivatives	**18,808,999**	**5,055,334**	**1,004,417**	**5,399,337**	**6,764,227**	**37,032,314**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	31 December 2013					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Currency swaps:						
Purchases	6,466,775	2,235,281	536,697	151,078	-	9,389,831
Sales	3,732,391	993,337	535,505	144,173	-	5,405,406
Currency forwards:						
Purchases	224,713	147,847	294,718	-	-	667,278
Sales	224,586	147,772	294,499	-	-	666,857
Cross currency interest rate swaps:						
Purchases	-	353,100	107,000	936,756	-	1,396,856
Sales	-	250,998	77,250	792,895	-	1,121,143
Interest rate swaps:						
Purchases	-	-	-	1,044,578	1,027,996	2,072,574
Sales	-	-	-	1,044,578	1,027,996	2,072,574
Currency options:						
Purchases	32,224	14,002	124,204	-		170,430
Sales	32,224	14,002	124,204	-	-	170,430
Other:						
Purchases	1,000	-	-	-	3	1,003
Sales	2,724,841	1,237,736	-	-	-	3,962,577
Total of purchases	**6,724,712**	**2,750,230**	**1,062,619**	**2,132,412**	**1,027,999**	**13,697,972**
Total of sales	**6,714,042**	**2,643,845**	**1,031,458**	**1,981,646**	**1,027,996**	**13,398,987**
Total of derivatives	**13,438,754**	**5,394,075**	**2,094,077**	**4,114,058**	**2,055,995**	**27,096,959**

Set out below accruals of derivative instruments:

	Asset		Liability	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Forwards	4,090	28,578	3,667	28,168
Swaps	369,739	407,752	261,265	189,247
Options	5,747	2,065	5,695	2,065
Fair value of derivatives	**379,576**	**438,395**	**270,627**	**219,480**

8. REPURCHASE AGREEMENTS

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

	31 December 2014		31 December 2013	
	Fair value of underlying assets	Carrying Value of corresponding assets	Fair value of underlying assets	Carrying Value of corresponding assets
Reverse repurchase agreements	6,338	5,859	1,101	1,000

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

8. REPURCHASE AGREEMENTS (Continued)

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The counterparties can not resell or repeledged the assets. Assets sold under repurchase agreements comprise the following:

	31 December 2014		**31 December 2013**	
	Fair value of underlying assets	**Carrying Value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying Value of corresponding liabilities**
Financial assets at fair value through profit or loss			-	-
Investment securities- Available for sale portfolio	11,801,059	11,665,207	11,301,427	10,348,674
Investment securities- Held to maturity portfolio	5,629,267	4,520,095	4,831,230	4,231,671
Total	**17,430,326**	**16,185,302**	**16,132,657**	**14,580,345**

Accrued interest on obligations under repurchase agreements amounted to TL 19,686 (31 December 2013: TL 27,615) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

9. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 31 December 2014 and 2013:

	31 December 2014			**31 December 2013**		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Domestic banks	15,169	420,547	435,716	988	28,251	29,239
Foreign banks	-	129,199	129,199	-	136,265	136,265
Total	**15,169**	**549,746**	**564,915**	**988**	**164,516**	**165,504**

As at 31 December 2014, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL nil (31 December 2013: TL 6,669) held against the insurance liabilities of the Group in favour of the Turkish Treasury.

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

10. LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2014 and 31 December 2013, outstanding loans and advances to customers comprise the followings:

	31 December 2014	**31 December 2013**
Corporate loans	72,120,741	57,726,558
Neither past due nor impaired	*69,982,937*	*55,987,777*
Past due but not impaired	*2,137,804*	*1,738,781*
Consumer loans	30,159,998	25,024,694
Neither past due nor impaired	*28,709,268*	*24,139,353*
Past due but not impaired	*1,450,730*	*885,341*
Credit cards	1,769,875	3,837,261
Neither past due nor impaired	*1,475,282*	*3,653,969*
Past due but not impaired	*294,593*	*183,292*
Loans to financial institutions	1,339,302	1,427,801
Finance lease receivables, net of unearned income	1,089,987	900,223
Factoring receivables	536,720	166,984
Total performing loans	**107,016,623**	**89,083,521**
Non-performing loans	4,377,740	3,822,880
Total gross loans	**111,394,363**	**92,906,401**
Allowance for incurred loan losses from loans and advances to customers	(4,838,962)	(3,731,355)
Specific impairment	*(3,486,879)*	*(2,977,836)*
Collective impairment	*(1,352,083)*	*(753,519)*
Loans and advances to customers, net	**106,555,401**	**89,175,046**

The specific allowance for incurred losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances.

Movements in the allowance for incurred loan losses are as follows:

	31 December 2014	**31 December 2013**
Reserve at the beginning of the year	3,731,355	2,738,448
Corporate loans (*)	*2,857,379*	*2,090,562*
Consumer loans (*)	*873,976*	*647,886*
Adjustment for currency translation	188	(2,933)
Reserve for incurred loan losses provided during the year	1,887,801	1,256,218
Recoveries	(776,193)	(259,294)
Corporate loans (*)	*(556,582)*	*(185,931)*
Consumer loans (*)	*(219,611)*	*(73,363)*
Provision, net of recoveries	**4,843,151**	**3,732,439**
Loans written off during the year	(4,189)	(1,084)
Reserve at the end of the year	**4,838,962**	**3,731,355**
Corporate loans (*)	*3,684,306*	*2,857,379*
Consumer loans (*)	*1,154,656*	*873,976*

(*) Consumer loans include credit cards amount.

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

10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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				
Corporate	1,125,721	334,491	677,592	2,137,804
Consumer	988,259	322,024	140,447	1,450,730
Credit cards	193,962	74,008	26,623	294,593
Total	**2,307,942**	**730,523**	**844,662**	**3,883,127**

31 December 2013	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Corporate	1,003,729	278,926	456,126	1,738,781
Consumer	533,426	237,726	114,189	885,341
Credit cards	117,141	48,199	17,952	183,292
Total	**1,654,296**	**564,851**	**588,267**	**2,807,414**

11. FINANCE LEASE RECEIVABLES

The finance leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following finance lease receivables:

	31 December 2014	31 December 2013
Finance lease receivables, net of unearned finance income	1,089,987	900,223
Add: non-performing lease receivables	133,969	123,442
Total finance lease receivables	1,223,956	1,023,665
Less: allowance for incurred losses on lease receivables	(84,970)	(47,780)
Finance lease receivables, net	**1,138,986**	**975,885**

	31 December 2014	31 December 2013
Due within one year	130,634	293,886
Due between 1 and 5 years	893,355	720,602
More than five years	298,741	90,113
Finance lease receivables, gross	1,322,730	1,104,601
Unearned finance income	(182,360)	(128,716)
Finance lease receivables, net	**1,140,370**	**975,885**
Due within one year	128,309	248,209
Due between 1 and 5 years	773,233	642,756
More than five years	237,444	84,920
Finance lease receivables, net	**1,138,986**	**975,885**

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

12. INVESTMENT SECURITIES

As at 31 December 2014 and 2013, investment securities comprise the following:

	31 December 2014	31 December 2013
Available-for-sale financial assets	16,975,815	16,742,096
Held-to-maturity investment securities	6,854,593	5,413,171
Total investment securities	**23,830,408**	**22,155,267**

Available-for-sale financial assets:

	31 December 2014		31 December 2013	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in TL	11,416,221	12,629,806	12,333,229	12,551,950
Eurobonds issued by the Turkish Government	3,295,235	3,778,675	3,598,048	3,802,827
Bonds issued by banks	-	-	144,400	119,537
Government bonds in foreign currencies	277,997	307,001	137,124	140,958
Treasury bills in TL	159,142	137,668	-	-
Corporate bonds	20,892	17,949	26,962	21,176
		16,871,099		**16,636,448**
Equity and other non-fixed income instruments:				
Equity shares		104,716		105,648
		104,716		**105,648**
Total available-for-sale financial assets		**16,975,815**		**16,742,096**

As at 31 December 2014 and 2013, equity shares comprised the following:

	31 December 2014	31 December 2013
Unquoted investments:		
Güney Ege Enerji Ltd Şti	209,738	209,738
Vakıf Pazarlama Sanayi ve Ticaret AŞ	103,941	103,942
Bayek Tedavi ve Sağlık Hizmetleri AŞ	33,954	33,954
Takas ve Saklama Bankası AŞ	30,319	17,926
Vakıf Gayrimenkul Ekspertiz ve Değerleme A.Ş.	23,787	19,800
Vakıf İnşaat Restorasyon AŞ	10,838	10,838
Roketsan Roket Sanayi ve Ticaret AŞ	7,593	7,593
İzmir Enternasyonel AŞ	6,178	6,178
Mastercard Incorporated	-	6,562
Visa Inc.	-	4,188
Others	5,400	15,906
	431,748	**436,625**
Impairment	(327,032)	(330,977)
Total	**104,716**	**105,648**

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

12. INVESTMENT SECURITIES (Continued)

The following table summarizes available-for-sale financial assets that were deposited as collaterals with respect to various banking transactions:

	31 December 2014		31 December 2013	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	9,672,596	10,703,046	8,345,593	8,466,807
Deposited at other institutions for repurchase transactions	2,232,420	2,491,278	2,715,987	2,834,620
Others	929,348	964,595	498,165	503,361
Total		**14,158,919**		**11,804,788**

Held-to-maturity investment securities:

	31 December 2014			31 December 2013		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
Debt instruments:						
Government bonds in TL	6,206,610	6,761,749	6,890,793	4,298,673	5,358,742	5,249,032
Certificate of deposits	89,289	92,844	92,800	42,839	42,839	42,800
Eurobonds issued by the Turkish Government	-	-	-	11,081	11,590	11,496
Total held-to-maturity investment securities		**6,854,593**	**6,983,593**		**5,413,171**	**5,303,328**

Movements of held to maturity investment securities are as follows:

	Current year	Previous year
At the beginning of the year	**5,413,171**	**4,261,060**
Effect of change in foreign exchange rate	7,990	54,323
Purchases during the year	2,924,991	2,530,205
Transfers to available for sale portfolio	-	-
Disposals through sales/redemptions	(1,773,902)	(1,507,738)
Change in amortized cost	282,343	75,321
At the end of the year	**6,854,593**	**5,413,171**

The following table summarizes held-to-maturity investment securities that were deposited as collaterals with respect to various banking transactions:

	31 December 2014		31 December 2013	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial and other institutions for repurchase transactions	3,396,411	3,833,695	3,281,601	3,609,552
Deposited at Central Bank of Turkey for repurchase transactions	1,562,294	1,795,572	1,289,930	1,221,678
Deposited at Central Bank of Turkey for interbank transactions	656,385	730,578	270,312	272,247
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	237,000	273,033	2,707	9,007
Deposited at Turkish Derivative Exchange			30	31
Others	56,500	61,235	42,800	42,839
Total		**6,694,113**		**5,155,354**

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

13. INVESTMENT IN EQUITY-ACCOUNTED INVESTEES

As at 31 December 2014 and 2013 investments in equity participations accounted for using the equity method are as follows:

	31 December 2014	31 December 2013
Unquoted investments:		
Kıbrıs Vakıflar Bankası Ltd.	11,837	10,102
T. Sınai Kalkınma Bankası AŞ(*)	217,765	181,692
Total	**229,602**	**191,794**

(*) The Management has reassessed the investment in this entity and it is concluded that the Group has significant influence in the investment. This investment is reclassified from available-for-sale financial assets to investment in equity-accounted investees based on the Management's reassessment in 2014.

14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property and equipment and intangible assets from 1 January to 31 December 2014 and 1 January to 31 December 2013 are as follows:

Property and equipment	1 January 2014	Currency translation difference	Additions	Disposals	31 December 2014
Cost:					
Land and buildings	918,836	-	68,934	(29,878)	957,892
Motor vehicles	54,433	-	2,070	(9,547)	46,956
Furniture, office equipment and leasehold improvements	592,931	-	83,760	(40,228)	636,463
Other tangibles	457,818	-	41,716	(46,129)	453,405
	2,024,018	**-**	**196,480**	**(125,782)**	**2,094,716**
Accumulated depreciation:					
Land and buildings	298,087	84	19,710	(5,943)	311,938
Motor vehicles	37,397	-	6,072	(7,769)	35,700
Furniture, office equipment and leasehold improvements	450,322	-	52,521	(743)	502,100
Other tangibles	219,365	-	43,644	(4,953)	258,056
	1,005,171	**84**	**121,947**	**(19,408)**	**1,107,794**
Net book value	**1,018,847**				**986,922**

Intangible assets	1 January 2014	Currency translation difference	Additions	Disposals	31 December 2014
Cost:					
Software programmes	169,165	(3)	48,072	(839)	216,395
	169,165	**(3)**	**48,072**	**(839)**	**216,395**
Accumulated amortization:					
Software programmes	41,035	-	13,184	(164)	54,055
	41,035	**-**	**13,184**	**(164)**	**54,055**
Net book value	**128,130**				**162,340**

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

14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Property and equipment	1 January 2013	Currency translation difference	Additions	Disposals	31 December 2013
Cost:					
Land and buildings	890,654	(1,014)	32,328	(3,132)	918,836
Motor vehicles	55,132	(10)	2,056	(2,745)	54,433
Furniture, office equipment and leasehold improvements	548,584	(520)	63,729	(18,862)	592,931
Other tangibles	312,813	(1)	153,593	(8,587)	457,818
	1,807,183	**(1,545)**	**251,706**	**(33,326)**	**2,024,018**
Accumulated depreciation:					
Land and buildings	272,360	(735)	27,954	(1,492)	298,087
Motor vehicles	33,428	(9)	6,723	(2,745)	37,397
Furniture, office equipment and leasehold improvements	428,839	(434)	39,340	(17,423)	450,322
Other tangibles	187,489	(1)	40,433	(8,556)	219,365
	922,116	**(1,179)**	**114,450**	**(30,216)**	**1,005,171**
Net book value	**885,067**				**1,018,847**

Intangible assets	1 January 2013	Currency translation difference	Additions	Disposals	31 December 2013
Cost:					
Software programmes	148,914	(282)	42,270	(21,737)	169,165
	148,914	**(282)**	**42,270**	**(21,737)**	**169,165**
Accumulated amortization:					
Software programmes	48,865	(265)	13,873	(21,438)	41,035
	48,865	**(265)**	**13,873**	**(21,438)**	**41,035**
Net book value	**100,049**				**128,130**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

15. OTHER ASSETS

	31 December 2014	31 December 2013
Receivables from insurance activities	833,623	293,382
Assets held for resale	792,848	632,261
Receivables from credit card payments	772,007	596,284
Prepaid expenses	627,350	518,833
Investment properties	192,000	20,829
Deferred acquisition costs for insurance contracts, gross	110,321	86,788
Receivables from term sales of fixed assets	68,664	96,948
Receivables from reinsurance activities	54,057	598,482
Prepaid taxes other than income tax and funds to be refunded	10,253	20,516
Others	373,363	145,733
Total non-financial other asset	**3,834,486**	**3,010,056**
Collaterals for derivative financial instruments	351,579	61,219
Guarantees given for repurchase agreements	193,605	392,641
Total financial other asset	**545,184**	**453,860**

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

15. OTHER ASSETS (Continued)

As at 31 December 2014, reserve deposits at the CBT were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBT.

In accordance with "Announcement on Reserve Deposits" of CBT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate of 11.5% for demand deposits, and the rates decrease to 5% as maturities get longer (31 December 2013: 11.5% for demand deposits, and the rates decrease to 5% as maturities get longer). For foreign currency liabilities, all banks shall provide a reserve rate of 13% in US Dollar or Euro for demand and up to 1 year maturity deposits and rates decrease to 6% as maturities get longer (31 December 2013: 13% in US Dollar or Euro for demand and up to 1 year maturity deposits and rates decrease to 6% as maturities get longer).

As at 31 December 2014, TL 792,848 (31 December 2013: TL 632,261) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the years ended 31 December 2014 and 2013, movement of deferred acquisition cost is as follows:

	31 December 2014	31 December 2013
Deferred acquisition cost at the beginning of the year	86,788	77,015
Addition	187,092	150,272
Transfer to profit/loss	(163,559)	(140,499)
Deferred acquisition cost at the end of the year	**110,321**	**86,788**

16. TRADING LIABILITIES

As at 31 December 2014 and 2013, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	31 December 2014	31 December 2013
Forwards	3,667	28,168
Swaps	261,265	189,247
Options	5,695	2,065
Total trading liabilities	**270,627**	**219,480**

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

17. DEPOSITS FROM BANKS

As at 31 December 2014 and 2013, deposits from banks comprise the following:

	31 December 2014	31 December 2013
Demand deposits	67,036	25,537
Time deposits	5,153,319	4,273,454
Total deposits from banks	**5,220,355**	**4,298,991**

18. DEPOSITS FROM CUSTOMERS

As at 31 December 2014 and 2013, deposits from customers comprise the following:

	31 December 2014		31 December 2013	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	3,715,353	20,354,788	2,981,927	17,913,065
Foreign currency deposits	3,471,885	20,611,525	2,217,403	18,088,035
Residents in Turkey	3,055,738	15,800,487	*1,653,082*	*14,056,114*
Residents in abroad	416,147	4,811,038	*564,321*	*4,031,921*
Commercial deposits	2,154,089	14,717,319	1,756,601	14,983,863
Public sector deposits	3,583,281	11,481,650	3,132,866	8,807,234
Others	4,062,540	4,359,347	3,791,076	5,111,147
Total deposits from customers	**16,987,148**	**71,524,629**	**13,879,873**	**64,903,344**

19. FUNDS BORROWED

As at 31 December 2014 and 2013, funds borrowed comprise the followings in accordance with their original maturities:

	31 December 2014		31 December 2013	
	TL	Foreign currency	TL	Foreign Currency
Short-term funds	1,235,673	7,404,200	*158,470*	*6,753,818*
Short-term portion of long term funds	171,829	463,245	*53,426*	*4,416,037*
Total short-term funds	1,407,502	7,867,445	211,896	11,169,855
Medium/long term funds	80,252	6,905,451	225,850	699,063
Total funds borrowed	**1,487,754**	**14,772,896**	**437,746**	**11,868,918**

On 12 April 2013, the Parent Bank has obtained syndicated loan at the amount of US Dollar 251,5 million and Euro 555,17 million in total US Dollar 980 million with the interest rate of Libor/Euribor +1.00% at a maturity of one year with the participation of 38 banks. On 16 April 2014, the loan has been renewed with a new syndicated loan amounting to US Dollar 270,5 million and Euro 525 million with the interest rate of US Libor +0.90% and Euribor +0.90% at a maturity of one year, with participation of 35 banks with the coordination of Wells Fargo Bank, N.A., London Branch and Sumitomo Mitsui Banking Corporation, Brussels Branch acting as agent.

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

19. FUNDS BORROWED (Continued)

On 20 September 2013, the Parent Bank has obtained syndicated loan at the amount of US Dollar 166 million and Euro 471 million with the interest rate of US Libor + 0.75% and Euribor + 0.75% at a maturity of one year, with the participation of 27 banks with the coordination and agency of ING Bank N.V. London. On 22 September 2014, the loan has been renewed with a new syndicated loan amounting to US Dollar 168,5 million and Euro 528,75 million with interest rates of US Libor + 0.90% and Euribor + 0.9% at a maturity of one year, with the participation of 26 banks, ING Bank, London Branch acting as coordinator and agent bank.

On 19 December 2014, the Parent Bank has obtained securitization loan at the amount of US Dollar 928,6 million related to foreign transfers and treasury transactions in Euro and US Dollar. Loan at the amount of US Dollar 500 million has been obtained related to foreign transfers at a maturity of five years and loan at the amount of US Dollar 428,6 million has been obtained related to treasury transactions at a maturity of seven years in seven different segments in total.

The loan obtained from European Bank for Reconstruction and Development Bank (EBRD) at the amount of US Dollar 125 million in 2014-A segment in order to finance medium term loans including to meet the needs of agricultural enterprises and support woman entrepreneurs.

2014-B segment of the loan has been obtained from Wells Fargo Bank, N.A., 2014-D segment of the loan has been obtained from Raiffeisen Bank International AG, 2014-D segment of the loan has been obtained from Standard Chartered Bank, 2014-E segment of the loan has been obtained from Societe Generale, 2014-G segment of the loan has been obitaned from Bank of America, N.A. and 2014-F segment of the loan related to treasury transactions has been obtained from JP Morgan Securities plc. in the scope of programme.

20. DEBT SECURITIES ISSUED

	31 December 2014		31 December 2013	
	TL	**FC**	**TL**	**FC**
Nominal	2,930,927	7,472,592	2,357,636	4,499,865
Cost	2,813,866	7,436,932	2,256,108	4,477,363
Net Book Value	2,866,343	7,518,365	2,301,798	4,518,937

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

20. DEBT SECURITIES ISSUED (Continued)

Current Period									
ISIN Code	**Security Type**	**Coupon Rate**	**Currency Type**	**Issue Date**	**Maturity Date**	**Days to Maturity**	**Nominal**	**Cost**	**Net Book Value**
TRQVKFB31521	Discounted	-	TL	21.11.2014	13.03.2015	112	367,289	357,774	361,284
TRQVKFB31539	Discounted	-	TL	12.12.2014	13.03.2015	91	196,129	192,033	192,925
TRQVKFB81526	Discounted	-	TL	24.10.2014	07.08.2015	287	88,644	82,430	83,878
TRQVKFB81534	Discounted	-	TL	21.11.2014	07.08.2015	259	27,404	25,798	26,044
TRQVKFB51529	Discounted	-	TL	21.11.2014	15.05.2015	175	240,965	231,321	233,540
TRQVKFB81542	Discounted	-	TL	12.12.2014	07.08.2015	238	14,561	13,782	13,846
TRQVKFB41520	Discounted	-	TL	24.10.2014	17.04.2015	175	736,745	705,583	717,613
TRQVKFB51537	Discounted	-	TL	12.12.2014	15.05.2015	154	165,233	159,456	160,193
TRQVKFB41512	Discounted	-	TL	02.05.2014	17.04.2015	350	12,028	11,042	11,700
TRQVKFB51511	Discounted	-	TL	06.06.2014	29.05.2015	357	36,117	33,210	34,837
TRQVKFB21514	Discounted	-	TL	22.08.2014	13.02.2015	175	664,715	638,505	657,735
TRQVKFB81518	Discounted	-	TL	22.08.2014	07.08.2015	350	43,546	39,822	41,166
TRQVKFB31513	Discounted	-	TL	19.09.2014	13.03.2015	175	337,551	323,110	331,582
US90015NAA19	Fixed	5.75	USD	24.04.2012	24.04.2017	1826	1,147,300	1,136,528	1,155,710
XS0916347759	Fixed	3.75	USD	15.04.2013	15.04.2018	1826	1,391,012	1,383,310	1,397,180
XS0987355939	Fixed	5	USD	31.10.2013	31.10.2018	1826	1,160,000	1,152,460	1,164,098
XS1069999610	Fixed	1.75	USD	21.05.2014	20.05.2015	364	11,600	11,600	11,725
XS1084474862	Fixed	0.73	USD	03.07.2014	07.01.2015	188	18,328	18,328	18,394
XS1085714621	Fixed	1.43	USD	09.07.2014	07.01.2015	182	92,800	92,800	93,443
XS1087783269	Fixed	1.45	USD	14.07.2014	08.01.2015	178	42,688	42,688	42,979
XS1087831506	Fixed	1.45	USD	15.07.2014	15.01.2015	184	97,440	97,440	98,100
XS1089992686	Fixed	1.4	USD	22.07.2014	15.01.2015	177	48,720	48,720	49,025
XS1090076768	Fixed	1.4	USD	22.07.2014	22.01.2015	184	58,000	58,000	58,364
XS1091762812	Fixed	1.4	USD	25.07.2014	22.01.2015	181	48,256	48,256	48,553
XS1091766482	Fixed	1.4	USD	01.08.2014	26.01.2015	178	71,920	71,920	72,343
XS1096098030	Fixed	1.4	USD	08.08.2014	05.02.2015	181	76,328	76,324	76,756
XS1096471526	Fixed	1.4	USD	08.08.2014	29.01.2015	174	35,264	35,264	35,462
XS1097465766	Fixed	1.4	USD	13.08.2014	18.02.2015	189	27,840	27,840	27,991
XS1101735634	Fixed	1.4	USD	20.08.2014	19.02.2015	183	40,600	40,600	40,809
XS1101839170	Fixed	1.4	USD	21.08.2014	17.02.2015	180	69,600	69,600	69,956
XS1105745761	Fixed	0.7	USD	02.09.2014	05.03.2015	184	64,960	64,960	65,111
XS1107482306	Fixed	1.38	USD	09.09.2014	12.03.2015	184	84,680	84,671	85,043
XS1110657050	Fixed	1.4	USD	16.09.2014	19.03.2015	184	116,000	116,000	116,477
XS1112873176	Fixed	1.4	USD	23.09.2014	26.03.2015	184	85,840	85,840	86,170
XS1113320888	Fixed	1.74	USD	24.09.2014	23.09.2015	364	14,384	14,382	14,450
XS1115283571	Fixed	1.73	USD	30.09.2014	07.10.2015	372	9,280	9,278	9,319
XS1115485010	Fixed	1.4	USD	29.09.2014	27.03.2015	179	34,800	34,800	34,926
XS1117991213	Fixed	1.1	USD	08.10.2014	08.01.2015	92	73,776	73,776	73,966
XS1118030300	Fixed	1.8	USD	09.10.2014	08.10.2015	364	27,840	27,840	27,955
XS1118051215	Fixed	1.35	USD	08.10.2014	02.04.2015	176	73,312	73,312	73,543
XS1118053005	Fixed	1.35	USD	08.10.2014	17.04.2015	191	11,600	11,600	11,637
XS1121229741	Fixed	1.78	USD	15.10.2014	26.10.2015	376	9,280	9,278	9,314
XS1121307059	Fixed	1.1	USD	15.10.2014	15.01.2015	92	73,312	73,312	73,485
XS1121307307	Fixed	1.35	USD	15.10.2014	16.04.2015	183	55,680	55,680	55,841
XS1123043983	Fixed	1.02	USD	20.10.2014	20.01.2015	92	23,200	23,195	23,246
XS1124128320	Fixed	1.35	USD	17.10.2014	16.04.2015	181	62,640	62,640	62,817
XS1124141349	Fixed	1.1	USD	17.10.2014	22.01.2015	97	30,160	30,160	30,229
XS1124325074	Fixed	1.35	USD	20.10.2014	20.04.2015	182	58,000	58,000	58,157
XS1126276697	Fixed	1.8	USD	23.10.2014	23.10.2015	365	116,000	116,000	116,402
XS1129857782	Fixed	1.35	USD	24.10.2014	28.04.2015	186	56,144	56,144	56,288
XS1130031039	Fixed	1.33	USD	28.10.2014	27.04.2015	181	81,200	81,192	81,388
XS1130490227	Fixed	1.79	USD	30.10.2014	04.11.2015	370	10,440	10,438	10,471
XS1132341485	Fixed	1.25	USD	03.11.2014	30.04.2015	178	30,160	30,160	30,221
XS1132341568	Fixed	1.8	USD	04.11.2014	05.11.2015	366	12,064	12,064	12,099
XS1132440386	Fixed	1.27	USD	05.11.2014	07.05.2015	183	32,480	32,480	32,545
XS1135135272	Fixed	1.8	USD	05.11.2014	05.11.2015	365	116,000	116,000	116,326
XS1138701500	Fixed	1.3	USD	18.11.2014	27.05.2015	190	18,560	18,558	18,588
XS1139114257	Fixed	1.24	USD	18.11.2014	18.05.2015	181	92,800	92,791	92,932
XS1143013297	Fixed	1.28	USD	24.11.2014	28.05.2015	185	52,432	52,432	52,502
XS1143372008	Fixed	1.25	USD	25.11.2014	27.05.2015	183	81,200	81,196	81,300
XS1063444001	Floating	3 Month-Euribor+2.15%	EUR	06.05.2014	06.05.2016	731	29,634	29,486	29,650
XS1077629225	Fixed	3.5	EUR	17.06.2014	17.06.2019	1826	1,397,038	1,387,589	1,415,079
Total							**10,403,519**	**10,250,798**	**10,384,708**

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

20. DEBT SECURITIES ISSUED (Continued)

Prior year

ISIN Code	Security Type	Coupon Rate(%)	Currency Type	Issue Date	Maturity Date	Days to Maturity	Nominal	Cost	Net Book Value
XS0916347759	Fixed	3.75	USD	15.04.2013	15.04.2018	1,826	1,282,968	1,275,986	1,287,414
XS0987355939	Fixed	5	USD	31.10.2013	31.10.2018	1,826	1,070,000	1,063,045	1,072,420
US90015NAA19	Fixed	5.75	USD	24.04.2012	24.04.2017	1,826	1,056,730	1,048,377	1,063,882
TRQVKFB21415	Discounted	-	TL	06.09.2013	28.02.2014	175	648,883	620,788	639,392
TRQVKFB51438	Discounted	-	TL	08.11.2013	02.05.2014	175	617,443	594,194	601,272
TRQVKFB61411	Discounted	-	TL	20.12.2013	06.06.2014	168	613,114	589,153	590,850
TRQVKFB21423	Discounted	-	TL	06.09.2013	28.02.2014	175	187,216	179,130	184,485
XS0957643801	Fixed	1.9	USD	06.08.2013	06.02.2014	184	154,508	154,462	155,705
TRQVKFB11416	Discounted	-	TL	18.01.2013	17.01.2014	364	145,464	136,844	144,999
XS0960939857	Fixed	1.97	USD	15.08.2013	13.02.2014	182	118,984	118,966	119,884
XS1000211968	Fixed	1.3	USD	04.12.2013	06.03.2014	92	118,984	118,984	119,104
XS0963672950	Fixed	1.95	USD	20.08.2013	13.02.2014	177	117,700	117,688	118,550
XS1008673540	Fixed	1.59	USD	24.12.2013	23.06.2014	181	85,600	85,596	85,626
XS0976659234	Fixed	1.73	USD	03.10.2013	03.04.2014	182	64,200	64,161	64,458
XS0982276528	Fixed	1.67	USD	11.10.2013	16.01.2014	97	64,200	64,192	64,443
XS0986042439	Fixed	1.62	USD	28.10.2013	21.01.2014	85	63,344	63,340	63,528
TRQVKFB51412	Discounted	-	TL	17.05.2013	16.05.2014	364	61,522	58,211	60,210
TRQVKFB51420	Discounted	-	TL	05.07.2013	16.05.2014	315	53,415	49,922	51,859
XS0979045886	Fixed	1.67	USD	07.10.2013	06.01.2014	91	51,360	51,356	51,565
XS0993260933	Fixed	1.25	USD	12.11.2013	10.02.2014	90	47,080	47,080	47,162
XS0977254621	Fixed	1.66	USD	02.10.2013	09.01.2014	99	43,442	43,437	43,624
XS0973201444	Fixed	1.83	USD	20.09.2013	24.03.2014	185	41,516	41,512	41,731
XS0974147695	Fixed	1.66	USD	23.09.2013	06.01.2014	105	38,306	38,302	38,482
XS0943035328	Floating	1.53	EUR	14.06.2013	16.06.2014	367	29,489	29,445	29,720
TRQVKFB81419	Discounted	-	TL	06.09.2013	22.08.2014	350	30,579	27,866	28,731
XS0942820803	Fixed	1.00	CHF	12.06.2013	13.06.2014	366	27,914	27,900	28,065
XS0997543896	Fixed	1.49	USD	22.11.2013	28.05.2014	187	23,540	23,534	23,574
Total							**6,857,501**	**6,733,471**	**6,820,735**

21. SUBORDINATED LIABILITIES

The Bank has issued bond having the secondary subordinated debt quality to be sold non-resident natural and legal persons. The bond has been issued at the nominal value of USD 500 million, with maturity of 10 years and 6.0% coupon rate.

In addition to the issuance of the bond having the secondary subordinated debt realized on 1 November 2012, the Bank, has realized second trance in issuance of the bond having the secondary subordinated debt quality to be sold in foreign bond markets. The bond has been issued at nominal value of USD 400 million, has the same maturity with previous bond and 5.5% coupon rate.

The Bank has obtained written permission of the BRSA for accounting these bonds as secondary subordinated debt and accordingly considering in the calculation of supplementary capital in compliance with the “Regulation on Capitals of the Banks” published on “ November 2006 dated and 26333 numbered Official Gazette.

As at 31 December 2014, carrying value of subordinated liabilities amount to TL 2,126,436 (31 December 2013: TL 1,964,663).

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

22. OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities and accrued expenses are as follows:

	31 December 2014	**31 December 2013**
Accounts against expenditures of credit card holders	2,724,688	2,327,420
Import letter of credit	860,242	711,016
Reserve for outstanding claims for insurance contracts	704,438	598,346
Reserve for unearned insurance premiums	659,248	617,512
Reserve for employee severance indemnity	347,710	292,365
Unearned income	268,063	263,982
Clearing account	257,201	184,740
Taxes payable other than income tax	222,948	177,079
Reserve for short term employee benefits	202,543	196,442
Margin deposit for derivative financial instruments	183,613	160,511
Payables due to insurance activities	163,728	109,808
Long term insurance contracts	160,496	189,991
Miscellaneous payables	160,091	129,066
Investment contract liabilities	123,937	129,747
Blocked accounts	86,287	41,807
Provision for unused vacations	81,264	76,703
Provision for non-cash loans	63,030	54,771
Deferred commission income for insurance contracts	54,462	52,475
Other provisions	32,934	99,263
Payables to suppliers relating to finance lease activities	26,005	45,048
Other liabilities	152,367	131,525
Total other liabilities and provisions	**7,535,295**	**6,589,617**

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

22. OTHER LIABILITIES AND PROVISIONS (Continued)

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	**31 December 2014**	**31 December 2013**
Reserve for unearned insurance premiums, net	357,700	335,079
Reserve for unearned insurance premiums, reinsurer share	301,548	282,433
Reserve for unearned insurance premiums, gross	**659,248**	**617,512**

Reserve for unearned insurance premiums (net)	**31 December 2014**	**31 December 2013**
At the beginning of the year	335,079	280,219
Premiums written during the year *(Note 28)*	816,373	835,467
Premiums earned during the year *(Note 28)*	(793,752)	(780,607)
At the end of the year	**357,700**	**335,079**

Provision for outstanding claims	**31 December 2014**	**31 December 2013**
Provision for outstanding claims, net	394,506	320,174
Provision for outstanding claims, reinsurer share	309,932	278,172
Provision for outstanding claims, gross	**704,438**	**598,346**

Provision for outstanding claims (net)	**31 December 2014**	**31 December 2013**
At the beginning of the year	320,174	205,030
Cash paid for claims settled during the year	(528,299)	(478,284)
Increase during the year	602,631	593,428
At the end of the year	**394,506**	**320,174**

Long term insurance contracts	**31 December 2014**	**31 December 2013**
At the beginning of the year	319,738	322,074
Entrance during the year	38,876	79,655
Withdrawals during the year	(74,181)	(81,991)
Change in fair value of investments held for investment contracts	-	-
At the end of the year	**284,433**	**319,738**
Long term insurance contracts	*160,496*	*189,991*
Investment contract liabilities	*123,937*	*129,747*

Movement in the reserve for employee severance indemnity is as follows:

Reserve for employee severance indemnity	**31 December 2014**	**31 December 2013**
At the beginning of the year	292,365	243,602
Currency translation difference	(75)	76
Interest cost	25,434	21,515
Service cost	25,983	17,379
Payment during the year	(40,612)	(20,122)
Actuarial re-measurement	44,615	29,915
At the end of the year	**347,710**	**292,365**

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

23. INCOME TAXES

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

	31 December 2014	31 December 2013
Income tax recognized in profit or loss for the year		
Current income tax related to income from operations	(470,195)	(464,944)
Deferred income tax related to income from operations	107,078	88,359
	(363,117)	**(376,585)**
Income tax recognized in other comprehensive income		
Current income tax recognized in other comprehensive income	(125,829)	76,633
Deferred income tax recognized in other comprehensive income	(27,389)	17,574
	(153,218)	**94,207**
Income tax expense recognized in the consolidated profit or loss and other comprehensive income	**(516,335)**	**(282,378)**

The movement of current tax liabilities is as follows:

	31 December 2014	31 December 2013
At the beginning of the year	61,399	172,808
Current income tax charge	465,322	464,944
Current income tax recognized under equity	109,600	(76,633)
Taxes paid during the year	(386,381)	(499,720)
Current tax liabilities	**249,940**	**61,399**

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

	31 December 2014	Tax rate (%)	31 December 2013	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**2,038,808**		**2,120,588**	
Taxes on income per statutory tax rate	(396,100)	(19.43)	(424,118)	(20.00)
Income not subject to tax	27,884	1.37	54,854	2.59
Investment incentives	1,350	0.07	(4,999)	(0.24)
Disallowable expenses	(5,937)	(0.29)	(13,742)	(0.65)
Others, net	9,686	0.48	11,420	0.54
Income tax expense	**(363,117)**	**(17.81)**	**(376,585)**	**(17.76)**

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

23. INCOME TAXES (Continued)

Deferred tax assets and liabilities at 31 December 2014 and 2013 are attributable to the items below:

	31 December 2014	31 December 2013
Other provisions	203,611	109,982
Valuation differences of financial assets and liabilities	135,402	78,222
Provision for employee severance indemnity and unused vacations	83,204	74,807
Tax losses carried forward	21,127	24,601
Investment incentive	17,213	21,053
Valuation difference for property and equipment	10,542	9,301
Other temporary differences	15,620	5,805
Deferred tax assets	**486,719**	**323,771**
Net-off of the deferred tax assets and liabilities from the same entity	(157,047)	(125,168)
Deferred tax assets, (net)	**329,672**	**198,603**
Valuation differences of financial assets and liabilities	172,255	118,291
Other temporary differences	-	10,855
Deferred tax liabilities	**172,255**	**129,146**
Net-off of the deferred tax assets and liabilities from the same entity	(157,047)	(125,168)
Deferred tax liabilities, (net)	**15,208**	**3,978**

24. EARNINGS PER SHARE

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

There is no dilution of shares as at 31 December 2014 and 2013.

The following reflects the basic earnings per share computations:

	31 December 2014	31 December 2013
Net profit attributable for the year	1,675,691	1,744,003
Number of 100 ordinary shares for basic earnings per shares	2.500.000.000	2.500.000.000
Basic earnings per 100 share	0.6703	0.6976
Diluted earnings per 100 share	0.6703	0.6976

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.)

25. EQUITY

Share capital

As at 31 December 2014, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2013: TL 2,500,000). The Bank's paid-in capital is divided into 250.000.000.000 shares, each with a nominal value of 1 Kuruş. As at 31 December 2014, share capital presented in equity amounts to TL 3,300,146 (31 December 2013: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 31 December 2014 (31 December 2013: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005. Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

Board of Directors' members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member**.**

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

In the current period, subsequent to the approval of the decision of the capital of İstanbul Takas ve Saklama Bankası in the Ordinary Meeting of General Assembly of the Company dated 28 March 2014, an associate of the Bank, has been increased from TL 420,000 to TL 600,000, TL 120,000 is paid from bonus shares and TL 60,000 is paid in cash amounting to TL 180,000 in total. The stock right in cash capital commitment has been removed related to the capital increase; Banks' share has been decreased from 4.86% to %4.37.

Non-controlling interest

As at 31 December 2014, non-controlling interest is analysed as follows:

	31 December 2014	**31 December 2013**
Capital and other reserves	660,830	450,426
Legal reserves	23,248	22,663
Retained earnings	(76,005)	(41,048)
Profit for the year	11,387	(23,836)
Total non-controlling interest	**619,460**	**408,205**

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

25. EQUITY (Continued)

Set out below is non-controlling profit and dividend payment for the year by subsidiaries:

	31 December 2014		31 December 2013	
	Profit or loss attributable to non-controlling interest	**Dividends paid to non-controlling interest during the year**	**Profit or loss attributable to non-controlling interest**	**Dividends paid to non-controlling interest during the year**
Taksim Otelcilik AŞ	3,143	-	957	-
Vakıf Emeklilik AŞ	4,755	6,288	3,527	5,839
Güneş Sigorta AŞ	(12,848)	-	(30,993)	-
Vakıf Finans Factoring Hizmetleri AŞ	1,531	-	(1,166)	-
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	12,874	99	3,074	-
Vakıfbank International AG	3,383	-	1,395	-
Other	(1,451)	16	(630)	30
Total	**11,387**	**6,403**	**(23,836)**	**5,869**

Fair value reserves of available-for-sale financial assets*:*

	31 December 2014	31 December 2013
Balance at the beginning of the year	(168,236)	873,807
Net gains/(losses) from changes in fair values	668,303	(884,071)
Related deferred and current income taxes	(161,957)	94,641
Net gains transferred to profit or loss on disposal	210,138	(246,196)
Related deferred and current income taxes	(42,028)	(6,417)
Balance at the end of the year	**506,220**	**(168,236)**

Summarised financial information on subsidiaries

Summarised financial information for each subsidiary that has non-controlling interests that are material to the group as follows:

	Güneş Sigorta A.Ş.		Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.		Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Non-controlling interest ratio (%)	**63.65**	**63.65**	**59.36**	**70.51**	**67.09**	**78.23**
Total Asset	1,360,678	1,212,682	553,866	198,991	19,566	13,166
Current Asset	*845,057*	*754,156*	*319,101*	*55,678*	*19,517*	*13,114*
Non-current Asset	*515,621*	*458,526*	*234,765*	*143,313*	*49*	*52*
Total Liabilities	*974,174*	*878,114*	1,566	1,600	*1567*	*179*
Total Equity	386,504	334,568	552,300	197,391	17,999	12,987
Interest Income	24,219	14,128	23,776	1,604	370	272
Income on securities portfolio	9,524	13,355	422	2,817	534	(248)
Profit/(loss)	13,440	53,692	21,855	4,359	18	-1,445

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

26. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, shareholders (namely General Directorate of the Registered Foundations and Appendant Foundations represented by the General Directorate of the Foundations), subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

	31 December 2014			31 December 2013		
Related party	**Cash loans**	**Non-cash loans**	**Deposits**	**Cash loans**	**Non-cash loans**	**Deposits**
Direct/Indirect shareholders	1,842	20,407	777,703	1,870	36,646	1,014,941
Associates	10	266	16,405	11	592	20,387
Key management personnel	-	-	309	-	-	318
Total	**1,852**	**20,673**	**794,417**	**1,881**	**37,238**	**1,035,646**

	31 December 2014				31 December 2013			
Related party	**Commiss ion Income**	**Interest income**	**Interest expense**	**Other operating expense**	**Commission Income**	**Interest income**	**Interest expense**	**Other operatin g expense**
Direct/Indirect shareholders	45	-	61,048	16	32	-	25,957	46
Associates	17	-	4,472	9	29	-	2,816	175
Total	**62**	**-**	**65,520**	**27**	**61**	**-**	**28,773**	**221**

Key Management Remuneration

For the period ended 31 December 2014, the key management personnel received remuneration and fees amounted to TL 23,980 (31 December 2013: TL 23,458).

27. OTHER INCOME

As at and for years ended 31 December 2014 and 2013, other income comprised the followings:

	31 December 2014	**31 December 2013**
Earned premiums	663,933	780,607
Written premiums	*816,911*	*835,467*
Change in reserve for unearned premiums	*(152,978)*	*(54,860)*
Gain on sale of fixed assets	385,471	53,924
Excess fee charged to customers for communication expenses	85,302	85,215
Individual pension business income	48,626	38,266
Dividend income from equity shares	11,421	18,017
Rent income	529	2,534
Others	113,910	70,483
Total	**1,309,192**	**1,049,046**

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

28. SALARIES AND EMPLOYEE BENEFITS

As at and for the years ended 31 December 2014 and 2013, salaries and employee benefits comprised the following:

	31 December 2014	31 December 2013
Wages and salaries	(605,769)	(568,098)
Other fringe benefits	(434,154)	(387,577)
Employer's share of social security premiums	(178,076)	(153,837)
Provision for short term employee benefits	(231,829)	(259,492)
Provision for employee termination benefits	(11,070)	(18,772)
Change in provision for liability for unused vacations	(77,602)	(9,179)
Total	**(1,538,500)**	**(1,396,955)**

The average number of employees of the Group during the year is:

	31 December 2014	31 December 2013
The Bank	14,906	14,943
Subsidiaries	2,104	2,104
Total	**17,010**	**17,047**

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 3,438 and TL (full TL) 3,254 as at 31 December 2014 and 31 December 2013, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2014 and 2013 are as follows:

	31 December 2014	31 December 2013
Discount Rate	8.60%	9.70%
Inflation Rate	6.50%	6.40%
Increase in Real Wage Rate	7.50%	7.40%

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

29. OTHER EXPENSES

As at and for the years ended 31 December 2014 and 2013, other expenses comprised the following:

	31 December 2014	**31 December 2013**
Incurred insurance claims	(602,631)	(593,428)
Insurance claims paid	*(528,299)*	*(478,284)*
Change in provision for outstanding claims	*(74,332)*	*(115,144)*
Banking services promotion expenses	(443,316)	(396,767)
Rent expenses and operating lease charges	(215,225)	(183,224)
Saving Deposit Insurance Fund premiums	(99,057)	(91,780)
Communication expenses	(88,913)	(82,172)
Advertising expenses	(72,060)	(98,054)
Cleaning service expenses	(46,359)	(41,734)
Loss on sale of assets	(36,077)	(33,393)
Maintenance expenses	(33,796)	(26,264)
Other provision expenses	(27,660)	(16,390)
Energy expenses	(26,611)	(24,262)
Computer usage expenses	(25,716)	(17,433)
BRSA participation fee	(20,369)	(15,687)
Transportation expenses	(20,267)	(14,709)
Credit card promotion expenses	(20,132)	(20,669)
Consultancy expenses	(19,473)	(15,135)
Office supplies	(19,332)	(21,133)
Hosting expenses	(14,948)	(14,659)
Individual pension business expenses	(2,311)	(3,673)
Change in long term insurance contracts	-	(2,240)
Other various administrative expenses	(370,483)	(168,680)
Total	**(2,204,736)**	**(1,881,486)**

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

30. 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 consolidated financial statements including:

	31 December 2014	31 December 2013
Letters of guarantee	21,458,807	17,901,823
Letters of credit	5,212,911	4,390,249
Acceptance credits	1,964,093	1,052,278
Other guarantees	39,236	62,356
Total non-cash loans (financial guarantee contracts)	**28,675,047**	**23,406,706**
Credit card limit commitments	7,641,987	6,261,117
Loan granting commitments	8,068,201	6,739,356
Commitments for cheque payments	1,638,976	1,320,438
Commitments for credit card and banking operations promotions	247,938	238,991
Other commitments	9,547,074	-
Total commitments	**27,144,176**	**14,559,902**
Total commitments and contingencies	**55,819,223**	**37,966,608**

Contingent assets and liabilities

There are various legal cases against the Group for which TL 16,142(31 December 2013: TL16,023) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favour of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group’s financial position.

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group’s tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group’s management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

31. SUBSEQUENT EVENTS

At the resolution of the Board of Directors dated 2 January 2015, it has been decided to submit to the approval of shareholders in the first Ordinary Meeting of the General Assembly to increase registered capital ceiling from TL 5,000,000,000 to TL 10,000,000,000 and to change the related clause 7 of Bank's Articles of Association related to capital. Authorization has been given to General Directorate to make the required applications to the establishments, Capital Markets Board (CMB) being in the first place.

The Parent Bank has issued bond having the secondary subordinated loan (Tier-II) on January 2015 amounting to US Dollar 500 million with maturity date 3 February 2025 (10 years 1 day maturity) that has an option to mature on 3 February 2020 with twice interest payment at a coupon rate of 6.875% and issue return rate of 6.95%.

The Parent Bank's bond issuance with a nominal value of TL 200 million at maturity date 15 May 2015 (119 days maturity) and public offering has been carried out on 12-13-14 January 2015 using book-building method. The issuance has been finalized. The nominal value of the bond has been determined as TL 136,882,419 at maturity date 15 May 2015 (119 days maturity) with compound interest rate 8.4444% and simple interest rate 8.2148%. The ISIN code of the bond has been determined as TRQVKFB51545 with issue price of 97.392.

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