Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

17 February 2015

This report contains the "Independent Auditors' Report comprising 1 page and; the "Consolidated Financial Statements and their explanatory notes" comprising 80 pages.

Türkiye Halk Bankası Anonim Şirketi and its subsidiaries

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Independent Auditors' Report

To the Board of Directors of Türkiye Halk Bankası Anonim Şirketi,

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Halk Bankası AŞ and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

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

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

Erdal Tıkmak
Partner
17 February 2015
İstanbul, TÜRKİYE

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Financial Position
As at 31 December 2014
(Currency-In thousands of Turkish Lira ("TL"))

	Notes	31 December 2014	31 December 2013
Assets			
Cash on hand	*8*	1.000.480	816.367
Balances with Central Bank	*9*	4.749.973	3.734.361
Reserve deposits at Central Bank	*9*	14.581.483	15.470.667
Due from banks	*10*	1.760.640	2.139.861
Financial assets at fair value through profit or loss		227.812	186.965
- Trading securities	*11*	*102.360*	*46.650*
- Derivative financial instruments	*27*	*125.452*	*140.315*
Loans and advances	*12*	101.620.357	84.889.760
Insurance premium receivables	*13*	213.341	203.433
Investment securities:		27.065.941	28.802.559
- Available-for-sale investment securities	*11*	*9.196.859*	*9.828.961*
- Held-to-maturity investment securities	*11*	*17.869.082*	*18.973.598*
Investment in equity-accounted investees	*14*	219.799	220.732
Finance lease receivables	*15*	1.862.377	1.633.695
Property and equipment	*16*	1.671.737	1.445.562
Intangible assets	*17*	83.849	67.785
Non-current assets held for sale	*18*	8.519	6.714
Investment property	*19*	24.529	36.344
Deferred tax assets	*25*	439.959	104.692
Other assets	*20*	1.460.534	1.540.938
Total assets		**156.991.330**	**141.300.435**
Liabilities			
Deposits from banks	*21*	17.182.545	10.017.304
Deposits from customers	*21*	86.466.228	90.366.851
Obligations under repurchase agreements	*22*	8.427.354	779.532
Loan and advances from banks	*23*	15.951.065	16.574.894
Interbank money market borrowings	*24*	338.583	481.944
Derivative financial instruments	*27*	184.729	53.492
Debt securities issued	*28*	6.080.191	4.147.749
Insurance contract liabilities	*13*	831.394	715.670
Provisions	*26*	955.796	862.987
Income tax payables	*25*	352.743	62.701
Deferred tax liability	*25*	5.951	3.339
Other liabilities	*26*	3.688.138	3.142.435
Total liabilities		**140.464.717**	**127.208.898**
Equity			
Share capital	*29*	2.578.184	2.578.184
Share premium		39.009	39.009
Reserves	*30*	1.514.782	862.009
Retained earnings	*30*	12.215.657	10.449.279
Total equity attributable to equity holders of the Bank		**16.347.632**	**13.928.481**
Non-controlling interest		178.981	163.056
Total equity		**16.526.613**	**14.091.537**
Total liabilities and equity		**156.991.330**	**141.300.435**

The notes on pages 7 to 80 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2014
(Currency-In thousands of Turkish Lira (“TL”))

	Notes	31 December 2014	31 December 2013
Interest income:			
-Interest income on loans		8.800.720	7.147.995
-Interest income on securities		2.694.188	2.089.823
-Interest income on finance leases		120.336	104.299
-Interest income on deposits at banks		31.500	21.035
-Interest income on other money market placements		111	1.425
-Other interest income		72.255	26.700
		11.719.110	**9.391.277**
Interest expense:			
-Interest expense on deposits		(5.146.611)	(3.800.595)
-Interest expense on other money market deposits		(542.820)	(103.819)
-Interest expense on borrowings		(322.722)	(259.963)
-Interest expense on debt securities issued		(278.220)	(180.911)
-Other interest expense		(94.104)	(52.206)
		(6.384.477)	**(4.397.494)**
Net interest income		**5.334.633**	**4.993.783**
Fees and commission income	*35*	1.414.162	1.159.547
Fees and commission expenses	*35*	(464.997)	(306.722)
Net fee and commission income		**949.165**	**852.825**
Net trading income from securities		300.329	323.370
Net trading income / (loss) from derivative financial instruments		(1.416.795)	462.114
Foreign exchange gain / (losses), net		1.193.699	(538.414)
Net impairment losses on financial assets		(911.314)	(451.312)
Income from insurance operations		641.426	623.949
Cost of insurance operations		(525.342)	(408.378)
Dividend income		11.993	9.726
Other operating income	*33*	343.101	435.740
Other operating expenses	*34*	(3.139.877)	(2.843.347)
Operating profit		**2.781.018**	**3.460.056**
Share of profit of equity-accounted investees		10.343	11.915
Profit before income tax		**2.791.361**	**3.471.971**
Income tax expense	*25*	(526.470)	(617.077)
Profit for the year		**2.264.891**	**2.854.894**
Other comprehensive income			
Items that will be never classified to profit or loss:			
Remeasurement of employee termination benefits		(35.840)	18.405
Related tax		7.168	(3.681)
Items that are or may be reclassified subsequently to profit or loss:			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		901.613	(530.109)
Net amount transferred to profit or loss		(304.259)	(306.427)
Foreign currency translation differences		(17.027)	68.109
Related tax		(104.813)	128.189
Other comprehensive income for the year, net of tax		**446.842**	**(625.514)**
Total comprehensive income for the year		**2.711.733**	**2.229.380**

The notes on pages 7 to 80 are an integral part of these consolidated financial statements.

(Currency-In thousands of Turkish Lira (“TL”))

	Notes	31 December 2014	31 December 2013
Profit attributable to:			
Equity holders of the Bank		2.247.874	2.844.828
Non-controlling interest		17.017	10.066
Profit for the year		**2.264.891**	**2.854.894**
Total comprehensive income attributable to:			
Equity holders of the Bank		2.694.711	2.219.089
Non-controlling interest		17.022	10.291
Total comprehensive income for the year		**2.711.733**	**2.229.380**
Basic earnings per share (full TL per share)	*31*	**1,7983**	**2,2759**

The notes on pages 7 to 80 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the year ended 31 December 2014

(Currency-In thousands of Turkish Lira (“TL”))

	Total equity attributable to equity holders of the Bank							
			Reserves					
	Share capital	Share Premium	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2013	**2.578.184**	**--**	**406.863**	**934.651**	**8.312.761**	**12.232.459**	**4.831**	**12.237.290**
Total comprehensive income for the year								
Net profit of the period	--	--	--	--	2.844.828	2.844.828	10.066	**2.854.894**
Other comprehensive income, net of tax								
Reameausrement of employee termination benefits	--	--	--	--	14.760	14.760	(36)	**14.724**
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	--	--	(401.835)	--	--	(401.835)	(85)	**(401.920)**
Net amount transferred to profit or loss	--	--	(306.427)	--	--	(306.427)	--	**(306.427)**
Foreign currency translation differences	--	--	--	67.763	--	67.763	346	**68.109**
Total other comprehensive income	--	--	**(708.262)**	**67.763**	**14.760**	**(625.739)**	**225**	**(625.514)**
Total comprehensive income for the year	--	--	**(708.262)**	**67.763**	**2.859.588**	**2.219.089**	**10.291**	**2.229.380**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	--		--	172.349	(172.349)	--	--	--
Dividends to equity holders	--		--	--	(552.793)	(552.793)	--	(552.793)
Changes in ownership interests in subsidiaries								
Acquisition of non-controlling interests without a change in control	--	39.009	--	(594)	(8.689)	29.726	147.934	177.660
Other	--	--		(10.761)	10.761	--	--	--
Balances at 31 December 2013	**2.578.184**	**39.009**	**(301.399)**	**1.163.408**	**10.449.279**	**13.928.481**	**163.056**	**14.091.537**
Balances at 1 January 2014	**2.578.184**	**39.009**	**(301.399)**	**1.163.408**	**10.449.279**	**13.928.481**	**163.056**	**14.091.537**
Total comprehensive income for the year								
Net profit of the period	--	--	--	--	2.247.874	2.247.874	17.017	**2.264.891**
Other comprehensive income, net of tax								
Remeasurement of employee termination benefits	--	--	--	--	(28.681)	(28.681)	9	**(28.672)**
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	--	--	796.713	--	--	796.713	87	**796.800**
Net amount transferred to profit or loss	--	--	(304.259)	--	--	(304.259)	--	**(304.259)**
Foreign currency translation differences	--	--		(16.936)	--	(16.936)	(91)	**(17.027)**
Total other comprehensive income	--	--	**492.454**	**(16.936)**	**(28.681)**	**446.837**	**5**	**446.842**
Total comprehensive income for the year	--	--	**492.454**	**(16.936)**	**2.219.193**	**2.694.711**	**17.022**	**2.711.733**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	--	--	--	177.198	(177.198)	--	--	**--**
Dividends to equity holders	--	--	--	--	(275.992)	(275.992)	--	**(275.992)**
Changes in ownership interests in subsidiaries								
Change in shares without a change in control	--	--	--	57	375	432	(1.097)	**(665)**
Balances at 31 December 2014	**2.578.184**	**39.009**	**191.055**	**1.323.727**	**12.215.657**	**16.347.632**	**178.981**	**16.526.613**

The notes on pages 7 to 80 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Cash Flows
For the year ended 31 December 2014
(Currency-In thousands of Turkish Lira ("TL"))

	Notes	31 December 2014	31 December 2013
Cash flows from operating activities			
Profit for the year		2.264.891	2.854.894
Adjustments for:			
Depreciation and amortisation	34	132.349	121.783
Net impairment loss on loans and advances	12	1.103.749	685.027
Net interest income		(5.334.633)	(4.993.783)
Dividend income		(11.993)	(9.726)
Provision for employee termination benefits	34	56.080	53.425
Impairment losses on property and equipment		2.423	1.680
Net gain on sale of property and equipment	33	(59.383)	(85.140)
Share of profit of equity-accounted investees		(10.343)	(11.915)
Income tax expense	25	526.470	617.077
		(1.330.390)	**(766.678)**
Change in financial assets at fair value through profit or loss		(56.473)	20.562
Change in due from banks		(12.000)	(6.000)
Change in loans and advances		(17.215.914)	(18.988.536)
Change in other assets		523.797	(7.966.856)
Change in deposits from banks		7.084.142	2.614.830
Change in deposits from customers		(3.850.890)	17.913.033
Change in loans and advances from banks		(898.547)	7.021.741
Change in other liabilities		7.228.405	997.706
Interest received		11.570.543	8.847.321
Dividends received		11.993	9.726
Interest paid		(6.335.886)	(3.596.875)
Income tax paid		(723.349)	(711.373)
Employee termination benefits paid		(30.762)	(29.203)
Net cash provided from / (used in) operating activities		**(4.035.331)**	**5.359.398**
Cash flows from investing activities			
Acquisitions of available-for-sale investment securities		(5.387.343)	(12.045.773)
Proceeds from sale of available-for-sale investment securities		7.066.089	7.781.686
Acquisitions of held to maturity investment securities	11	(3.826.270)	(5.077.884)
Proceeds from sale of held to maturity investment securities	11	5.433.161	3.865.533
Acquisitions of property and equipment	16	(486.264)	(331.806)
Proceeds from sale of property and equipment	16	129.524	260.649
Acquisitions of intangible assets	17	(29.458)	(14.248)
Net cash provided from / (used in) investing activities		**2.899.439**	**(5.561.843)**
Cash flows from financing activities			
Proceeds from issue of debt securities		3.019.801	3.601.467
Repayment of debt securities		(1.100.000)	(2.250.000)
Dividends paid	30	(275.992)	(552.793)
Other		-	30.954
Net cash provided from / (used in) financing activities		**1.643.809**	**829.628**
Net increase / (decrease) in cash and cash equivalents		**507.917**	**627.183**
Cash and cash equivalents at 1 January		6.519.983	5.254.694
Effect of change in currency rate fluctuations on cash held		263.031	638.106
Cash and cash equivalents at 31 December	36	**7.290.931**	**6.519.983**

The notes on pages 7 to 80 are an integral part of these consolidated financial statements.

Türkiye Halk Bankası Anonim Şirketi and its subsidiaries

Notes to the consolidated financial statements:

1. Activities of the Bank and the Group

Türkiye Halk Bankası AŞ (the "Bank") was incorporated in Turkey in 1933 as a state economic enterprise established under law no. 2284. As of 31 December 2014, the Bank operates 900 branches, including 895 domestic branches and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic Branches include 32 satellite branches and 1 financial services branches. There is 2 representative office in Iran and England. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consists of banking, securities, financial leasing, factoring services, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ and Bileşim Alternatif Dağıtım Kanalları AŞ.

In 2000, the Turkish Parliament passed Statute 4603, pursuant to which state-owned banks were required to restructure its operations and prepare themselves to eventual privatization. According to the Decree number 2006/69, dated as 11 August 2006 issued by Privatization High Council, all outstanding shares of the Bank are transferred to the Privatization Administration and 99,9% of the Bank shares should be sold to general public.

The first phase of the privatization process of the Bank corresponding to 24,98% of the shares was completed in the first week of May 2007 and the Bank's shares have been traded on Istanbul Stock Exchange (Borsa İstanbul AŞ (BIST)) as of 10 May 2007.

The second phase of the privatization process of the Bank corresponding to 23,92% of the shares that were previously held by the Privatization Administration was completed on 21 November 2012 and after the second public offering and privatization, the 48,90% of the Bank shares have been traded on Istanbul Stock Exchange (Borsa İstanbul AŞ (BIST)).

In November 2004, the Bank merged with Pamukbank Türk Anonim Şirketi ("Pamukbank"), integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Halk Sigorta AŞ, a property, health and casualty insurance company, Halk Hayat ve Emeklilik AŞ, a life insurance company and Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ in 2010. Halk Gayrimenkul Yatırım Ortaklığı AŞ's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Its main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the real estate investment trusts, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates. 28% shares of Halk GYO started to be traded on Borsa İstanbul AŞ (BIST) at 22 February 2013.

Halk Finansal Kiralama AŞ ("Halk Leasing"), was an associate of the Bank with 47,75% of the shares and accounted according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group's equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which is a subsidiary of Turkish state bank that operates in Macedonia, through the merger as of 1 October 2012. As a result, the Group's equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78%. Halk Banka AD, Skopje is operating in the Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

1. Activities of the Bank and the Group (continued)

Halk Portföy Yönetimi AŞ ("Halk Portföy"), a subsidiary of the Bank established in 2011, was registered on 30 June 2011. Halk Portföy's main line of business is to provide portfolio and fund management services.

Halk Faktoring AŞ ("Halk Faktoring"), a subsidiary of the Bank established in 2012, was registered on 6 June 2012. Halk Faktoring's main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operations.

Bileşim Alternatif Dağıtım Kanalları AŞ ("Bileşim AŞ"), a subsidiary of the Bank established in 1998. As of 22 July 2013, the Bank purchased 76% shares of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. which was the associate of the Bank, from Ziraat Group (the shares of T.C. Ziraat Bank A.Ş. was 61%, the shares of Ziraat Finansal Kiralama A.Ş. was 15%) and thus the company became the Bank's subsidiary. Bileşim AŞ's main line of business is to provide atm operations, call center services, merchant operations and printing office operations to domestic and international customers.

2. Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 17 February 2015.

3. Basis of preparation

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

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose and available-for-sale investment securities whose fair value can reliably be measured.

3.1. Use of judgement and estimates

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

3. Basis of preparation (continued)

3.1. Use of estimates and judgements (continued)

Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 4.8 – *financial assets and financial liabilities*.

Investments in equity securities were evaluated for impairment on the basis described in Note 4.8 – *financial assets and financial liabilities*.

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 judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 4.8 – *financial assets and financial liabilities*.

The Group measures fair values using the fair value hierarchy which is disclosed in Note 5 – *financial risk management*.

Financial asset and liability classification

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

- In classifying financial assets or liabilities as 'trading', the Group has determined that it meets the description of trading assets and liabilities set out in Note 4.10.

- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 4.12.

3.2. Functional and presentation currency

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The functional currency of the Bank's foreign associates is the local currency. Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms.

4. Significant accounting policies

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

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

4.1. Basis of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Bank and the subsidiaries.

Subsidiaries are the entities controlled by the Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Bank reassess 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.

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 do not have operating and financial 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.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

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

(Currency-In thousands of Turkish Lira (“TL”))

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

Subsidiaries (continued)

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

	Place of incorporation	**Direct ownership**		**Direct and Indirect ownership**	
		31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	93,49%	92,45%
Halk Hayat ve Emeklilik AŞ	Istanbul	100,00%	94,40%	100,00%	99,62%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,94%	99,96%	99,96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	78,07%	72,74%	78,11%	72,85%
Halk Finansal Kiralama AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Banka AD, Skopje	Skopje	98,78%	98,78%	98,78%	98,78%
Halk Portföy Yönetimi AŞ	Istanbul	75,00%	56,00%	99,99%	99,63%
Halk Faktoring AŞ	Istanbul	97,50%	95,00%	99,99%	99,90%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
  if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

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

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

Investments in associates (equity-accounted investees) (continued)

The equity-accounted associates of the Group as of 31 December 2014 and 31 December 2013 are as follows:

	Place of incorporation	Shareholding interest	
		31.12.2014	31.12.2013
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

4.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.2 Foreign currency (continued)

Foreign currency transactions (continued)

As at 31 December 2014 foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD") and EUR. The TL/USD and TL/EUR exchange rates as at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014		31 December 2013	
	Period end	**Average**	**Year end**	**Average**
TL / USD	2,3000	2,1650	2,1200	1,9013
TL / EUR	2,7871	2,8747	2,9184	2,5247

4.3 Interest

Interest income and expense are recognised in the profit or loss using the effective interest method except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are 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 income include:

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

4.4 Fees and commission

Commissions received from financial assets are recognised on an effective rate basis over the contractual period and unearned part is presented in other liabilities.

Commissions given for financial liabilities are recognised on a straight-line basis over the contractual period and prepaid part is presented in other assets.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business are recognised 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 recognised 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.

4.5 Net trading income

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

4.6 Dividends

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

4. Significant accounting policies (continued)

4.7 Income tax expense

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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

A deferred tax asset is recognised 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 utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

4.8 Financial assets and financial liabilities

Recognition

The Group initially recognises loans and advances, deposits, obligations under repurchase agreements, loans and advances from banks and interbank money market borrowings on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date on which the Group commits to purchase or sell the asset. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

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.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when its contractual obligations are discharged or cancelled or expired.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Offsetting

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

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

Amortised cost measurement

Amortised cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value measurement

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

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

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

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

In determining whether an impairment loss should be recorded profit or loss, the Group makes judgements 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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank 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;
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: (i) adverse changes in the payment status of borrowers; or (ii) national or local economic conditions that correlate with defaults on the assets in the group.
- All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

Assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realised 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 recognised in 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 recognised 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 (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Group 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.

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.

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

Assets carried at fair value

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 amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through statement of profit or loss.

Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4. Significant accounting policies (continued)

4.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances held with central banks and highly liquid financial original maturities of less than three months, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

4.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

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

4.11 Loans and advances

Loans and advances 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 or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortised cost using the effective interest method less any impairment in value. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

4.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. There has been no tainting in the held-to-maturity portfolio during 2014 and 2013.

Held to maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment in value.

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

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

4. Significant accounting policies (continued)

4.12 Investment securities (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as another category of financial assets. After initial recognition, available for sale financial assets are measured at fair value. Quoted equity securities and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Gains or losses on re-measurement to fair value are recognised as a separate component of equity until the instrument is derecognised, or until the instrument is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss, however interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

4.13 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised 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 recognised 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 recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

4.14 Property and equipment

Recognition and measurement

Items of property and equipment acquired before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated depreciation and impairment losses, and items of property and equipment acquired after 1 January 2006 are carried at acquisition cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within the other operating income or other operating expense in profit or loss.

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

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.14 Property and equipment (continued)

Subsequent costs

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

Depreciation

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

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

Buildings	50 years
Other movable properties	3 – 25 years
Assets held under financial leases	4 – 5 years
Safe-deposit boxes	50 years

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

Derecognition

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

4.15 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Estimated useful lives of investment properties and depreciation rates are 50 years and 2%, respectively.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

4.16 Intangible assets

Intangible assets acquired

Intangible assets acquired separately before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated amortisation and impairment losses, and items of intangible assets acquired after 1 January 2006 are carried at acquisition cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised at between 3 and 5 years based on their economic lives.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

4. Significant accounting policies (continued)

4.17 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

4.18 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that one not yet available for use, the recoverable amount is estimated each year at the same time.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised 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 recognised.

4.19 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.

4. Significant accounting policies (continued)

4.19 Leases (continued)

The Group as the lessor

Operating leases

Assets leased out under operating leases are included in investment property in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

Finance leases

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 recognised.

4.20 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either equity instruments or other financial liabilities.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings and deposits are the Group's sources of debt funding.

Borrowings and deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.21 Provisions

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

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

4. Significant accounting policies (continued)

4.22 Employee benefits

Defined benefit plans

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in other comprehensive income.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 26 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2014 is TL 372.392 (31 December 2013: TL 311.216).

Defined contribution plans

The foundations, Türkiye Halk Bankası AŞ Employee Pension Fund and T.C. Ziraat Bankası and T. Halk Bankası Employee Pension Fund, that the employees of the Bank are a member, were founded in accordance with the provisional article 20 of the Social Insurance Act ("SIA") No: 506. Provisional article 23 of the Banking Act No: 5411 requires the Bank's pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution ("SII") within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers' decision dated 30 November 2006 and numbered 2006/11345. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Grand National Assembly of Turkey ("GNA") started to work on establishing new legal regulations; and after, the "Law Regarding the Amendments to the Social Security and General Health Insurance Act and Certain Laws and Decree Laws" numbered 5754 which was published on the Official Gazette dated 8 May 2008 and numbered 26870 approved at the General Assembly of the GNA and came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three-year transfer period can be prolonged for maximum 2 years by the Council of Ministers' decision. Related transfer period has been prolonged for 2 years by the Council of Ministers' decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years. According to the decree of Council of Ministers dated 24 April 2014 and numbered 28987, which was published on the Gazette on 30 April 2014, the related transfer period was prolonged one more year.

4. Significant accounting policies (continued)

4.22 Employee benefits (continued)

Defined contribution plans (continued)

The members of the plan receive pension benefits on retirement, dependent on several factors such as age, years of service and compensation. The Group recognized the liability in the statement of financial position in respect to these plans equal to the present value of the defined benefit obligation at the balance sheet less the fair value of the assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the expected interest rates for Turkish Lira. The methodology included the calculation of the defined benefit obligation using 9% and inclusion of the present value of future employee contributions in plan assets. Based on the results of the actuarial report prepared as of 31 December 2014 and 31 December 2013, no technical deficit has been reported.

Short-term benefits

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

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

4.23 Insurance businesses

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 recognised as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognised 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 gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under income from insurance operations in the accompanying consolidated statement of profit or loss.

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

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 insurance contract liabilities in the accompanying consolidated statement of financial position.

4. Significant accounting policies (continued)

4.23 Insurance businesses (continued)

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. In the accompanying consolidated financial statements, reserve for outstanding claims is presented by netting off amounts recoverable from reinsurers under insurance contract liabilities. 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. 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 insurance contract liabilities in the accompanying consolidated statement of financial position. 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, health 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 insurance contract liabilities in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognised 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.

4. Significant accounting policies (continued)

4.23 Insurance businesses (continued)

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then 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.

Income generated from pension business: Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

4.24 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of income is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank.

4.25 Events after the reporting period

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

4.26 Segment reporting

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

4. Significant accounting policies (continued)

4.27 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 9 Financial Instruments (2014)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

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

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

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

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

- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).*
- *Annual Improvements to IFRSs 2010–2012 Cycle.*
- *Annual Improvements to IFRSs 2011–2013 Cycle.*
- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards*

5. Financial risk management

Organization of the Risk Management Function

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

The mission of Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

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

5. Financial risk management (continued)

Credit risk

The Group manages its credit risk by limiting its risk. Under the risk management the Bank rates each of its loans given to customers (legal or real) and requires additional guarantees from its customers with high risk ratings, or does not provide loans to such customers, or applies strategies in order to decrease the level risk of such loan. The Group's credit risk is focused in Turkey where its main operations take place. During the loan application process, limits for product and customers are taken into consideration and these limits are controlled regularly. The related loan units within the Bank are responsible for defining limits for sectors and geographical regions.

The risks and limits attributable to banks and transactions with correspondent banks are followed up on a daily basis. Off balance sheet risk concentration on individual customers and banks are also followed up daily in cooperation with the Treasury Department.

Those loans which are renewed or restructured are traced not only according to their relevant regulations, but are also traced by the risk management process where they are re-considered for their credit group and weight. With these methods, new precautions are taken and loans that have longer maturities have greater credit risks than the short-term loans.

The credibility of the debtors of the Bank is assessed periodically in accordance with the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Financial statements obtained for loans to be granted are audited as required by the related legislation. Loan limits are updated by the initiative of the Bank's Credit Committee and top management, as deemed necessary and in accordance with the changes in economic conditions. The Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of suretyships, mortgages on property, cash blockages and cheques.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans and recorded in the follow up accounts according to their collaterals.

The percentage of the top 100 cash loan clients of the Bank to the total loan portfolio is 19,25% (31 December 2013: 19,92%).

The percentage of the top 100 non-cash loan clients of the Bank to the total non-cash loan portfolio is 51,86% (31 December 2013: 54,28%).

The percentage of the total cash and non-cash loan balances of the top 100 clients to the total of assets and off-balance sheet items is 15,86% (31 December 2013: 15,90%).

Derivatives:

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

5. Financial risk management (continued)

Credit risk (continued)

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows:

	31 December 2014	
	Cash	**Non-cash**
Agricultural	530.677	31.641
Farming and raising livestock	*476.023*	*18.322*
Forestry	*3.281*	*174*
Fishing	*51.373*	*13.145*
Manufacturing	28.038.581	14.150.465
Mining	*357.101*	*474.924*
Production	*25.289.027*	*10.131.074*
Electric, gas and water	*2.392.453*	*3.544.413*
Construction	3.188.982	6.884.956
Services	42.280.880	11.443.414
Wholesale and retail trade	*18.379.028*	*5.267.795*
Hotel, food and beverage services	*2.967.915*	*105.228*
Transportation and telecommunication	*6.757.783*	*368.029*
Financial Institutions	*2.589.762*	*3.381.346*
Real estate and renting services	*9.144.623*	*2.211.973*
Self-employment services	*910.076*	*10.972*
Education services	*444.367*	*22.310*
Health and social services	*1.087.326*	*75.761*
Other	26.867.740	355.465
Total loans	**100.906.860**	**32.865.941**
Non-performing loans	3.719.046	--
Less: allowance for losses on loans and advances	(3.005.549)	--
Total	**101.620.357**	**32.865.941**

(*) As of 31 December 2014 allowance for losses on non-cash loans are TL 94.271.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows: (continued)

	31 December 2013	
	Cash	**Non-cash**
Agricultural	509.365	19.848
Farming and raising livestock	*457.204*	*15.573*
Forestry	*5.962*	*362*
Fishing	*46.199*	*3.913*
Manufacturing	23.834.821	10.928.569
Mining	*401.940*	*166.468*
Production	*22.076.106*	*8.931.224*
Electric, gas and water	*1.356.775*	*1.830.877*
Construction	2.603.150	6.010.567
Services	29.672.351	9.847.793
Wholesale and retail trade	*13.660.653*	*4.297.085*
Hotel, food and beverage services	*2.121.165*	*99.309*
Transportation and telecommunication	*4.864.783*	*334.702*
Financial Institutions	*1.439.363*	*3.165.901*
Real estate and renting services	*5.999.591*	*1.864.190*
Self-employment services	*509.894*	*10.779*
Education services	*276.941*	*17.049*
Health and social services	*799.961*	*58.778*
Other	28.237.892	313.652
Total loans	**84.857.579**	**27.120.429**
Non-performing loans	2.264.208	--
Less: allowance for losses on loans and advances	(2.232.027)	--
Total	**84.889.760**	**27.120.429**

(*) As of 31 December 2013 allowance for losses on non-cash loans are TL 69.008.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Credit risk types according to sectors and geographical concentration:

Credit risk of the Group as of 31 December 2014 and 31 December 2013 is calculated and credit risk types according to sectors and geographical concentration are presented in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 29111 dated 6 September 2014 which is complaint to Basel III.

Sectoral breakdown of risk weighted assets is as follows:

	31 December 2014	31 December 2013
Agricultural	738.035	557.007
Farming and raising livestock	*660.250*	*504.060*
Forestry	*4.549*	*3.538*
Fishing	*73.236*	*49.409*
Manufacturing	40.153.376	28.140.925
Mining	*757.919*	*497.132*
Production	*35.383.165*	*25.795.267*
Electric, gas and water	*4.012.292*	*1.848.526*
Construction	8.201.469	5.609.765
Services	102.595.950	78.400.666
Wholesale and retail trade	*25.427.319*	*16.237.101*
Hotel, food and beverage services	*3.832.263*	*2.154.147*
Transportation and telecommunication	*8.084.014*	*5.050.937*
Financial Institutions	*50.615.398*	*46.235.705*
Real estate and renting services	*12.160.928*	*7.057.076*
Self-employment services	*805.004*	*526.728*
Education services	*540.641*	*290.069*
Health and social services	*1.130.383*	*848.903*
Other	27.230.756	37.618.180
Total Risk Weighted Assets	**178.919.586**	**150.326.543**

Information according to geographical concentration:

	31 December 2014	31 December 2013
Domestic	176.829.589	147.095.756
EU Countries	248.046	1.010.168
OECD Countries(*)	5.208	22.655
USA, Canada	1.281.252	292.866
Other countries	514.108	915.022
Investment and associates, subsidiaries and joint ventures	41.383	990.076
Total Risk Weighted Assets	**178.919.586**	**150.326.543**

(*) OECD Countries other than the EU Countries, USA and Canada.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets:

Overdue and individually impaired assets are not available in due from banks, financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities as of 31 December 2014 and 31 December 2013.

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

31 December 2014	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and advances				
Corporate loans	12.886	117	3.851	16.854
SME loans	106.913	12.861	16.175	135.949
Consumer loans	39.439	5.939	4.810	50.188
Credit cards	133.991	25.049	15.141	174.181
Total	**293.229**	**43.966**	**39.977**	**377.172**

31 December 2013	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and advances				
Corporate loans	45.318	11.849	417	57.584
SME loans	92.435	19.073	15.644	127.152
Consumer loans	36.454	5.913	4.201	46.568
Other	122.995	20.934	10.949	154.878
Total	**297.202**	**57.769**	**31.211**	**386.182**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

As of 31 December 2014, the fair value of collaterals held against the past due but not yet impaired loans amounts to TL 1.588.045. The net value and type of the collaterals is as follows:

Collateral type	31 December 2014	31 December 2013
Real estate mortgage	959.346	1.817.757
Suretyships	353.289	237.474
Salary pledge, vehicle pledge and pledge of commercial undertaking	80.652	72.262
Cheque /bills	24.246	26.817
Financial collaterals (Cash, securities pledge, etc.)	387	14.588
Other	170.125	135.761
Total	**1.588.045**	**2.304.659**

(1) The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above. Income accruals are not included in the table.

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

	31 December 2014	31 December 2013
Loans and advances[(1), (2)]		
Corporate loans	80.479	59.642
SME loans	17.989	15.116
Consumer loans	12.265	12.545
Other	64	64
Total	**110.797**	**87.367**

(1) Accruals are not included to the table above

(2) Presents loans accounted under in restructured or rescheduled loan accounts.

Corporate and Commercial Loans	Internal/External Valuation Grade	Total	Entrepreneur Firms	Internal/External Valuation Grade	Total
Risk rating group 1	AAA	114.987	**High**		
Risk rating group 2	AA	6.633.588	Risk rating group 1	1	2.388.643
Risk rating group 3	A	8.631.185	Risk rating group 2	2	2.431.316
Risk rating group 4	BBB	13.969.829	**Standard**		
Risk rating group 5	BB	14.759.696	Risk rating group 3	3	2.209.418
Risk rating group 6	B	13.189.706	Risk rating group 4	4	2.992.234
Risk rating group 7	CCC	7.411.636	Risk rating group 5	5	5.169.415
Risk rating group 8	CC	667.968	**Below the standard**		
Risk rating group 9	C	-	Risk rating group 6	6	5.933.606
			Risk rating group 7	7	5.125.252
Total		**65.378.595**	**Total**		**26.249.884**

(1) Prepared in accordance with the internal grading results of the Bank.

(2) Includes the total of cash and non-cash loans.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Risk Grade (1-4)	Risk Group	Definition of risk group	Risk Grade (%)
1,00 - 1,40	AAA	The firm is an extremely positive firm with its financial and non-financial criteria and it can pursue its high credibility in the long run.	100 -86
1,41 - 1,80	AA	The firm is a positive firm with its financial and non-financial criteria and it can pursue its high credibility in the long run.	85 -73
1,81 - 2,00	A	The firm that has performed its optimization and has a high credibility in the short run and is a credible firm in the medium run.	72 - 67
2,01 - 2,20	BBB	The firm is a credible firm despite the fact that it cannot perform the optimization certain aspects of its financial and non-financial criteria.	66 - 60
2,21 - 2,40	BB	The firm cannot retain optimization in the major parts of its financials and non-financial criteria. It has speculative attributes but it's a credible firm in the short run.	59 - 53
2,41 - 2,60	B	Some of the financial and non-financial criteria are negative. It carries highly speculative attributes. In the short run it is a credible firm dependent on the positive conjecture.	52 - 47
2,61 - 2,80	CCC	The major part of its financial and non-financial criteria is negative and the firm is having difficulties in meetings its commitments. But it has guaranteed short run credibility dependent on the positive conjecture.	46 - 40
2,81 - 3,20	CC	The firm force acceptable risk limits when it's financial and non-financial criteria considered together, and have poor credibility.	39 - 27
3,21 - 3,60	C	The firm has no credibility when its financial and non-financial criteria considered together	26 - 13
3,61 - 4,00	D	The firm has no credibility under any condition.	12 - 0

Entrepreneur Loans Decision Module ("ELDM") is the rating module which is used for assessment of loan applications of companies which are classified by the Bank as a small and medium sized enterprises (SME) Customers within the SME in ELDM are evaluated by both qualitative and quantitative characteristics of firm, the size of endorsement and requested amount of loan before bank creates score card forms for each customers Score card which categorize firms according to their risk, includes 1 to 7 rating group and 1 has the lowest risk. Guarantees for companies that can be assessed by ELDM, converted into cash during the time it takes to prevent probable loss of value and the conversion process is divided into two main groups according to the criteria. The conversion of cash collateral to compensate for any losses in a margin, "Liquid Collateral Value" is referred to as the facility where the customer the amount of collateral to be determined by risk group, and the collateral value of the liquid.

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. Similar financial instruments 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.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

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

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 (including non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
31 December 2014	Derivatives - trading assets	125.452	--	125.452	--	1.230	124.222
31 December 2013	Derivatives - trading assets	140.315	--	140.315	--	12.100	128.215

	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 (including non-cash collateral)	Related amounts not offset in the statement of financial position: Cash collateral pledged	Net amount
31 December 2014	Derivatives - trading liabilities	184.729	--	184.729	--	(48.152)	136.577
31 December 2013	Derivatives - trading liabilities	53.492	--	53.492	--	--	53.492

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk

Liquidity risk occurs when there is not sufficient amount of cash or cash flows to meet the cash outflow needs completely and on time. Liquidity risk may also occur when the market penetration is not enough and when the open positions cannot be closed timely at competitive prices due to barriers and break-ups at the markets.

The Group uses domestic and foreign markets for its liquidity needs. Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (CBRT, ISE, Interbank money market, Settlement and Custody Bank and other markets). The Group has a lower ratio of the deposits compared to other banks with similar-sized positions; this indicates that larger loans can be obtained from the markets when needed. The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

Analysis of non-derivative financial liabilities by remaining contractual maturities:

31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	74.094.807	21.424.794	8.272.519	427.040	5.207	104.224.367	103.648.773
Obligations under repurchase agreements	8.185.745	585.000	--	--	--	8.770.745	8.427.354
Loans and advances from banks	1.981.805	1.489.537	4.925.862	5.637.224	2.336.889	16.371.317	15.951.065
Interbank money market borrowings	--	338.583	--	--	--	338.583	338.583
Debt securities issued	42.047	679.399	993.497	3.597.344	1.758.422	7.070.709	6.080.191
Total	**84.304.404**	**24.517.313**	**14.191.878**	**9.661.608**	**4.100.518**	**136.775.721**	**134.445.966**

31 December 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	71.581.890	19.742.987	9.347.160	264.648	5.211	100.941.896	100.384.155
Obligations under repurchase agreements	771.570	8.116	--	--	--	779.686	779.532
Loans and advances from banks	1.201.135	1.166.479	8.216.024	4.089.369	2.383.759	17.056.766	16.574.894
Interbank money market borrowings	--	481.944	--	--	--	481.944	481.944
Debt securities issued	38.756	27.047	1.042.907	2.068.988	1.682.419	4.860.117	4.147.749
Total	**73.593.351**	**21.426.573**	**18.606.091**	**6.423.005**	**4.071.389**	**124.120.409**	**122.368.274**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Analysis of the Group's derivative financial instruments according to their remaining maturities:

31 December 2014	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	447.863	924.736	735.850	1.306.080	-	3.414.529
Forward contracts – sell	445.641	100.785	735.784	1.255.610	-	2.537.820
Swaps – buy	7.382.660	2.869.155	348.727	114.570	-	10.715.112
Swaps – sell	7.460.853	2.915.569	345.286	90.745	-	10.812.453
Credit default swap – buy	-	-	-	-	-	-
Credit default swap – sell	-	-	-	-	-	-
Forward precious metal – buy	-	2.445	-	-	-	2.445
Forward precious metal – sell	-	805.714	-	-	-	805.714
Money buy options	48.581	45.967	62.172	-	-	156.720
Money sell options	48.579	45.967	62.172	-	-	156.718
Interest rate swap-buy	-	-	-	-	933.143	933.143
Interest rate swap-sell	-	-	-	-	933.143	933.143
Total	**15.834.177**	**7.710.338**	**2.289.991**	**2.767.005**	**1.866.286**	**30.467.797**

31 December 2013	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	864.130	325.844	493.614	78.487	--	1.762.075
Forward contracts – sell	854.856	180.495	491.752	76.157	--	1.603.260
Swaps – buy	8.222.392	284.080	119.964	106.000	--	8.732.436
Swaps – sell	8.185.666	269.741	105.094	91.175	--	8.651.676
Credit default swap – buy	--	--	--	--	--	--
Credit default swap – sell	--	--	--	--	--	--
Forward precious metal – buy	--	5.873	--	--	--	5.873
Forward precious metal – sell	--	149.450	--	--	--	149.450
Money buy options	50.680	52.904	21.934	--	--	125.518
Money sell options	50.246	44.618	30.655	--	--	125.519
Interest rate swap-buy	--	--	--	--	678.400	678.400
Interest rate swap-sell	--	--	--	--	678.400	678.400
Total	**18.227.970**	**1.313.005**	**1.263.013**	**351.819**	**1.356.800**	**22.512.607**

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position:

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
31 December 2014								
Assets								
Cash on hand	1.000.480	--	--	--	--	--	--	1.000.480
Balances with and reserve deposits at Central Bank	4.749.627	4.388.698	5.789.761	4.315.185	87.932	253	-	19.331.456
Due from banks	368.394	995.852	381.476	14.542	--	376	--	1.760.640
Financial assets at fair value through profit or loss	11.170	56.904	47.499	56.384	38.836	9.685	7.334	227.812
Loans and advances[(1)]	1.335.882	7.383.659	8.572.556	31.774.549	44.066.358	7.773.856	--	100.906.860
Investments securities	68.170	443.200	2.198.916	2.942.468	6.281.522	15.103.540	28.125	27.065.941
Other assets	467.996	117.672	228.737	703.617	1.395.056	136.928	3.648.135	6.698.141
Total assets	**8.001.719**	**13.385.985**	**17.218.945**	**39.806.745**	**51.869.704**	**23.024.638**	**3.683.594**	**156.991.330**
Liabilities and equity								
Deposits from banks	5.414.668	9.289.406	2.277.003	201.468	--	--	--	17.182.545
Deposits from customers	16.223.693	43.056.706	18.914.049	7.849.331	417.242	5.207	--	86.466.228
Obligations under repurchase agreements	--	8.181.354	246.000	--	--	--	--	8.427.354
Loans and advances from banks	17.430	2.016.286	1.469.084	4.738.661	5.452.399	2.257.205	--	15.951.065
Interbank money market borrowings	--	--	338.583	--	--	--	--	338.583
Debt securities issued	--	68.912	480.024	950.550	2.865.352	1.715.353	--	6.080.191
Other liabilities[(2)]	3.450.221	1.303.378	342.425	1.974.285	963.462	294.170	14.217.423	22.545.364
Total liabilities and equity	**25.106.012**	**63.916.042**	**24.067.168**	**15.714.295**	**9.698.455**	**4.271.935**	**14.217.423**	**156.991.330**
Liquidity gap	**(17.104.293)**	**(50.530.057)**	**(6.848.223)**	**24.092.450**	**42.171.249**	**18.752.703**	**(10.533.829)**	**--**

(1) Non performing loans (net) are presented in other assets.
(2) Shareholders’ equity is presented in the “undistributed” column.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position (continued):

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
31 December 2013								
Assets								
Cash on hand	816.367	--	--	--	--	--	--	816.367
Balances with and reserve deposits at Central Bank	3.733.448	3.952.981	5.433.672	5.997.924	86.804	199	--	19.205.028
Due from banks	253.855	1.615.719	266.690	3.597	--	--	--	2.139.861
Financial assets at fair value through profit or loss	--	68.091	28.004	38.564	44.957	5.064	2.285	186.965
Loans and advances[1]	1.123.337	6.266.721	6.919.121	27.102.200	37.267.229	6.178.971	--	84.857.579
Investments securities	--	764.533	2.003.267	4.311.389	8.602.057	13.103.692	17.621	28.802.559
Other assets	898.601	74.259	158.701	355.426	1.021.107	167.451	2.616.531	5.292.076
Total assets	**6.825.608**	**12.742.304**	**14.809.455**	**37.809.100**	**47.022.154**	**19.455.377**	**2.636.437**	**141.300.435**
Liabilities and equity								
Deposits from banks	3.585.113	5.825.580	306.452	300.159	--	--	--	10.017.304
Deposits from customers	15.107.066	46.919.541	19.238.264	8.837.783	258.986	5.211	--	90.366.851
Obligations under repurchase agreements	--	771.416	8.116	--	--	--	--	779.532
Loan and advances from banks	3.796	1.170.303	1.138.128	8.077.424	3.914.695	2.270.548	--	16.574.894
Interbank money market borrowings	--	--	481.944	--	--	--	--	481.944
Debt securities issued	--	38.663	26.777	1.001.133	1.763.434	1.317.742	--	4.147.749
Other liabilities[2]	3.407.283	832.350	292.420	1.057.852	772.245	175.449	12.394.562	18.932.161
Total liabilities and equity	**22.103.258**	**55.557.853**	**21.492.101**	**19.274.351**	**6.709.360**	**3.768.950**	**12.394.562**	**141.300.435**
Liquidity gap	**(15.277.650)**	**(42.815.549)**	**(6.682.646)**	**18.534.749**	**40.312.794**	**15.686.427**	**(9.758.125)**	**--**

(1) Non performing loans (net) are presented in other assets.
(2) Shareholders' equity is presented in the "undistributed" column.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Net liquidity gap

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Market risk

In accordance with the Group's risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of "Regulation on Measurement and Evaluation of Capital Adequacy of the Banks" published in Official Gazette numbered 29111 on 6 September 2014.

The Bank's Board of Directors set the risk limits by taking into account the Group's main risk factors and those limits are periodically revised in accordance with the market conditions and the Group's strategies. Furthermore, the Board of Directors ensure that, the necessary measures to be taken by risk management department and all other executives in respect of defining, measuring, monitoring and managing the risks exposed by the Group. The Value at Risk ("VaR") based limits that are determined by the Board of Directors and the denominated interest rate risk of the Group is limited to certain percentage of the shareholders' equity.

In accordance with "Regulation on Measurement and Evaluation of Capital Adequacy of the Banks", the Group's possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method.

The Value at Risk (VaR) that is calculated by using internal model methods besides standard method is validated by scenario analysis and stress tests. The VaR is calculated daily by using historical simulation and parametric approach and the results are reported the executives of the Bank.

The Group's average market risk calculated as of the end of months in the related periods is as follows:

	31 December 2014			31 December 2013		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest Rate Risk	235.930	252.536	215.272	208.836	255.811	173.270
Share Risk	3.945	7.602	648	5.880	12.970	718
Currency Risk	39.161	107.288	20.215	28.690	34.091	21.455
Commodity Risk	--	--	--	--	--	--
Settlement Risk	--	--	--	--	--	--
Options Risk	1.056	2.538	350	520	1.313	96
Counterparty Credit Risk	7.075	11.637	4.566	3.176	5.194	2.093
Amount Subject to Total Risk	**287.167**	**381.601**	**241.051**	**247.102**	**309.379**	**197.632**

Currency risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account. Net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Currency risk (continued)

The Group's exposure to foreign currency risk is limited. However, possible foreign currency risks are calculated in foreign currency risk table in the frame of the standard method weekly and monthly as to follow up the foreign currency risk periodically. In rare circumstances, when deemed necessary, foreign currency swap transactions are made with the banks.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

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

	Change in currency rate	Effect on profit / loss		Effect on equity	
		2014	2013	2014	2013
USD	10% increase	22.380	(1.796)	22.380	(1.796)
EUR	10% increase	35.898	6.002	35.898	6.002
Other	10% increase	14.043	13.581	14.043	13.581

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

	EUR	USD	Other FC	Total
31 December 2014				
Assets				
Cash on hand	101.441	86.935	56.805	245.181
Balances with Central Bank	--	1.360.238	--	1.360.238
Reserve deposits at Central Bank	2.740.697	9.368.279	2.458.149	14.567.125
Due from banks	264.566	833.376	216.115	1.314.057
Financial assets at fair value through profit or loss	46.013	46.593	155	92.761
Loans and advances	10.663.712	17.577.621	554.841	28.796.174
Investment securities	755.617	3.350.142	141.394	4.247.153
Investment in equity- accounted investees	205.255	--	--	205.255
Property and equipment	--	--	36.773	36.773
Other assets	830.854	878.948	39.461	1.749.263
Total assets	**15.608.155**	**33.502.132**	**3.503.693**	**52.613.980**
Liabilities				
Deposits from banks	4.749.087	2.215.661	504.044	7.468.792
Deposits from customers	13.209.677	11.335.290	2.251.954	26.796.921
Obligations under repurchase agreements	--	231.208	--	231.208
Loan and advances from banks	6.023.392	6.784.834	29.958	12.838.184
Debt securities issued	--	4.649.617	--	4.649.617
Other liabilities	156.376	180.805	40.630	377.811
Total liabilities	**24.138.532**	**25.397.415**	**2.826.586**	**52.362.533**
Net on balance sheet position	**(8.530.377)**	**8.104.717**	**677.107**	**251.447**
Net off balance sheet position	**8.889.357**	**(7.880.918)**	**(536.675)**	**471.764**
Derivative financial assets	9.614.242	2.857.612	682.364	13.154.218
Derivative financial liabilities	(724.885)	(10.738.530)	(1.219.039)	(12.682.454)
Non-cash loans(1)	4.426.846	12.734.159	639.589	17.800.594

(1) Non-cash loans are not included in the off-balance sheet position items.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Currency risk (continued)

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

	EUR	USD	Other FC	Total
31 December 2013				
Assets				
Cash on hand	85.846	71.541	31.262	188.649
Balances with Central Bank	--	1.570.064	--	1.570.064
Reserve deposits at Central Bank	7.832.855	5.316.973	2.311.732	15.461.560
Due from banks	1.277.078	340.063	128.985	1.746.126
Financial assets at fair value through profit or loss	20.474	22.696	1.284	44.454
Loans and advances	9.391.766	16.095.274	399.570	25.886.610
Investment securities	746.588	2.415.209	125.835	3.287.632
Investment in equity- accounted investees	206.348	--	--	206.348
Property and equipment	--	--	37.297	37.297
Other assets	847.514	725.909	46.284	1.619.707
Total assets	**20.408.469**	**26.557.729**	**3.082.249**	**50.048.447**
Liabilities				
Deposits from banks	3.503.895	2.080.889	424.303	6.009.087
Deposits from customers	16.901.740	10.554.741	2.541.049	29.997.530
Obligations under repurchase agreements	--	--	--	--
Loan and advances from banks	6.345.918	7.558.067	37.244	13.941.229
Debt securities issued	--	3.218.387	--	3.218.387
Other liabilities	171.160	295.896	28.311	495.367
Total liabilities	**26.922.713**	**23.707.980**	**3.030.907**	**53.661.600**
Net on balance sheet position	**(6.514.244)**	**2.849.749**	**51.342**	**(3.613.153)**
Net off balance sheet position	**6.574.262**	**(2.867.707)**	**84.464**	**3.791.019**
Derivative financial assets	7.538.178	1.528.531	521.062	9.587.771
Derivative financial liabilities	(963.916)	(4.396.238)	(436.598)	(5.796.752)
Non-cash loans[1]	4.025.819	9.854.410	427.717	14.307.946

[1] Non-cash loans are not included in the off-balance sheet position items.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk

The Group's standard interest rate shock methods are being used on a daily basis in respect of measuring the risk arising from repricing mismatch of asset and liability items. The duration within the limits set by Banking Regulation and Supervision Agency that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Group among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders' equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders' equity.

During the maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and repricing dates are taken into account for flexible interest instruments. The net amounts of non-performing loans are placed to the relevant maturity periods longer than six months and except demand time interval under other receivables with considering their estimated collection durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

Interest rate sensitivity:

The impact on financial statements as of 31 December 2014 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/ Shareholders' Equity
1	TL	500	(2.441.325)	(14,11%)
		(400)	2.533.249	14,64%
2	EURO	200	439.085	2,54%
		(200)	(476.404)	(2,75%)
3	USD	200	74.447	0,43%
		(200)	29.202	0,17%
	Total (For negative shocks)		**(1.927.793)**	**12,06%**
	Total (For positive shocks)		**2.086.047**	**(11,14%)**

The impact on financial statements as of 31 December 2013 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/ Shareholders' Equity
1	TL	500	(1.944.449)	(13,26%)
		(400)	2.029.290	13,84%
2	EURO	200	398.381	2,72%
		(200)	(429.990)	(2,93%)
3	USD	200	57.709	0,39%
		(200)	(11.397)	(0,08%)
	Total (For negative shocks)		**1.587.903**	**10,83%**
	Total (For positive shocks)		**(1.488.359)**	**(10,15%)**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates:

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2014							
Assets							
Cash on hand	--	--	--	--	--	1.000.480	1.000.480
Balances with and reserve deposits at Central Bank	3.444.506	--	--	--	--	15.886.950	19.331.456
Due from banks	996.227	381.476	14.542	--	--	368.395	1.760.640
Financial assets at fair value through profit or loss	38.601	18.533	25.256	23.732	16	121.674	227.812
Loans and advances[1]	35.400.239	14.687.573	21.730.990	22.719.793	3.412.901	2.955.364	100.906.860
Investment securities	10.527.321	1.192.196	3.895.874	3.830.549	7.591.876	28.125	27.065.941
Other assets	95.155	221.542	723.584	1.395.715	146.015	4.116.130	6.698.141
Total assets	**50.502.049**	**16.501.320**	**26.390.246**	**27.969.789**	**11.150.808**	**24.477.118**	**156.991.330**
Liabilities and equity							
Deposits from banks	9.289.406	2.277.003	201.468	--	--	5.414.668	17.182.545
Deposits from customers	43.060.811	18.922.779	7.932.795	325.437	672	16.223.734	86.466.228
Obligations under repurchase agreements	8.181.354	246.000	--	--	--	--	8.427.354
Loans and advances from banks	1.966.202	4.982.719	5.666.584	2.682.818	644.659	8.083	15.951.065
Interbank money market borrowings	--	338.583	--	--	--	--	338.583
Debt securities issued	68.912	480.024	950.550	2.865.352	1.715.353	--	6.080.191
Other liabilities[2]	2.849.410	215.388	2.362.144	33.523	--	17.084.899	22.545.364
Total liabilities and equity	**65.416.095**	**27.462.496**	**17.113.541**	**5.907.130**	**2.360.684**	**38.731.384**	**156.991.330**
On balance sheet interest sensitivity gap-Long	--	--	9.276.705	22.062.659	8.790.124	--	40.129.488
On balance sheet interest sensitivity gap-Short	(14.914.046)	(10.961.176)	--	--	--	(14.254.266)	(40.129.488)
Off balance sheet interest sensitivity gap-Long	115.011	840.031	33.634	426.575	--	--	1.415.251
Off balance sheet interest sensitivity gap-Short	(1.456)	(561.724)	(29.256)	(426.167)	--	--	(1.018.603)
Total position	**(14.800.491)**	**(10.682.869)**	**9.281.083**	**22.063.067**	**8.790.124**	**(14.254.266)**	**396.648**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders' equity is presented in the "non-interest bearing" column.

(Currency-In thousands of Turkish Lira (“TL”))

5. **Financial risk management** (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates (continued):

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2013							
Assets							
Cash on hand	--	--	--	--	--	816.367	816.367
Balances with and reserve deposits at Central Bank	44.863	--	--	--	--	19.160.165	19.205.028
Due from banks	1.615.719	266.690	3.597	--	--	253.855	2.139.861
Financial assets at fair value through profit or loss	71.262	36.402	33.361	38.591	5.064	2.285	186.965
Loans and advances(1)	27.044.297	15.055.638	17.252.723	20.117.591	3.397.759	1.989.571	84.857.579
Investment securities	12.516.890	2.181.056	2.267.275	5.007.535	6.812.182	17.621	28.802.559
Other assets	104.719	157.178	358.881	997.360	158.806	3.515.132	5.292.076
Total assets	**41.397.750**	**17.696.964**	**19.915.837**	**26.161.077**	**10.373.811**	**25.754.996**	**141.300.435**
Liabilities and equity							
Deposits from banks	5.825.580	306.452	300.159	--	--	3.585.113	10.017.304
Deposits from customers	46.921.143	19.249.198	8.913.188	176.096	160	15.107.066	90.366.851
Obligations under repurchase agreements	771.416	8.116	--	--	--	--	779.532
Loans and advances from banks	3.321.745	4.052.012	6.355.982	2.047.634	792.262	5.259	16.574.894
Interbank money market borrowings	--	481.944	--	--	--	--	481.944
Debt securities issued	38.663	26.777	1.001.133	1.763.434	1.317.742	--	4.147.749
Other liabilities(2)	1.816.845	135.772	1.380.756	18.669	--	15.580.119	18.932.161
Total liabilities and equity	**58.695.392**	**24.260.271**	**17.951.218**	**4.005.833**	**2.110.164**	**34.277.557**	**141.300.435**
On balance sheet interest sensitivity gap-Long	--	--	1.964.619	22.155.244	8.263.647	--	32.383.510
On balance sheet interest sensitivity gap-Short	(17.297.642)	(6.563.307)	--	--	--	(8.522.561)	(32.383.510)
Off balance sheet interest sensitivity gap-Long	12.410	10.146	6.893	--	--	--	29.449
Off balance sheet interest sensitivity gap-Short	(12.020)	(10.535)	(6.896)	--	--	--	(29.451)
Total position	**(17.297.252)**	**(6.563.696)**	**1.964.616**	**22.155.244**	**8.263.647**	**(8.522.561)**	**(2)**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders’ equity is presented in the “non-interest bearing” column.

(Currency - In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The bank operates in offshore markets. As of 31 December 2014 and 31 December 2013, its capital adequacy ratio is above 12%.

The Bank's consolidated regulatory capital position at 31 December 2014 and 31 December 2013 was as follows:

	31 December 2014	31 December 2013
Tier 1 capital	15.640.521	13.647.660
Tier 2 capital	1.277.829	850.726
Deductions from capital	(378.925)	(251.873)
Total regulatory capital	**16.539.425**	**14.246.513**
Risk-weighted assets	115.674.875	94.586.563
Value at market risk	3.321.613	3.104.450
Operational risk	10.946.889	9.358.600
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12,73%	13,31%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12,04%	12,75%

Fair value of financial instruments

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

	Carrying amount		Fair value	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Financial assets				
Due from banks	1.760.640	2.139.861	1.760.640	2.139.861
Financial assets at fair value through profit or loss				
-Trading securities	*102.360*	*46.650*	*102.360*	*46.650*
-Derivative financial instruments	*125.452*	*140.315*	*125.452*	*140.315*
Loans and advances	101.620.357	84.889.760	91.817.327	77.368.745
Investment securities				
-Available-for-sale investment securities	*9.196.859*	*9.828.961*	*9.196.859*	*9.828.961*
-Held-to-maturity investment securities	*17.869.082*	*18.973.598*	*19.079.880*	*18.492.161*
Finance lease receivables	1.862.377	1.633.695	1.862.377	1.649.434
	132.537.127	**117.652.840**	**123.944.895**	**109.666.127**
Financial liabilities				
Deposits from banks	17.182.545	10.017.304	17.182.545	10.017.304
Deposits from customers	86.466.228	90.366.851	86.567.945	90.498.466
Obligations under repurchase agreements	8.427.354	779.532	8.427.354	779.532
Loans and advances from banks	15.951.065	16.574.894	17.463.891	15.798.336
Interbank money market borrowings	338.583	481.944	338.583	481.944
Derivative financial instruments	184.729	53.492	184.729	53.492
Debt securities issued	6.080.191	4.147.749	6.080.389	3.899.765
	134.630.695	**122.421.766**	**136.245.436**	**121.528.839**

5. Financial risk management (continued)

Fair value of financial instruments (continued)

Fair values of financial assets such as financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Bank management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances, loans and advances from banks and deposits. These financial assets and liabilities include due from banks, obligations under repurchase agreements, interbank money market borrowings and debt securities issued that are of a contractual nature. The Bank 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.

For the financial assets and liabilities such as loans and advances, loans and advances from banks, finance lease receivables, deposits and derivative financial instruments; 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 used in estimating discount rates and foreign currency exchange rates. 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 that would have been determined by market participants acting at arm’s length.

Availability of observable market prices and model inputs reduces the need for management judgement 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.

Classification of fair value measurement

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

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

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

•Level 3: The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(Currency - In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Classification of fair value measurement (continued)

Classification requires using observable market data if possible.

31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets at fair value through profit or loss	98.561	125.452	--	224.013
Debt securities	*65.732*	--	--	*65.732*
Derivative financial assets held for trading purpose	--	*125.452*	--	*125.452*
Share certificates	*7.334*	--	--	*7.334*
Other Securities[(2)]	*25.495*	--	--	*25.495*
Available-for-sale financial assets[(1)]	9.168.734	--	--	9.168.734
Debt securities	*9.157.289*	--	--	*9.157.289*
Other Securities	*11.445*	--	--	*11.445*
Total Financial Assets	**9.267.295**	**125.452**	**--**	**9.392.747**
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	--	184.729	--	184.729
Total Financial Liabilities	**--**	**184.729**	**--**	**184.729**

[(1)]As of 31 December 2014 share certificates amounting to TL 28.125 in available for sale financial assets are not included in the above table, which are measured at cost.

[(2)] As of 31 December 2014, marketable securities amounting to TL 3.799 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets at fair value through profit or loss	42.978	140.315	--	183.293
Debt securities	*35.856*	--	--	*35.856*
Derivative financial assets held for trading purpose	--	*140.315*	--	*140.315*
Share certificates	*2.285*	--	--	*2.285*
Other Securities(2)	*4.837*	--	--	*4.837*
Available-for-sale financial assets[(1)]	9.811.340	--	--	9.811.340
Debt securities	*9.801.333*	--	--	*9.801.333*
Other Securities	*10.007*	--	--	*10.007*
Total Financial Assets	**9.854.318**	**140.315**	**--**	**9.994.633**
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	--	53.492	--	53.492
Total Financial Liabilities	**--**	**53.492**	**--**	**53.492**

[((1)]As of 31 December 2013 share certificates amounting to TL 17.621 in available for sale financial assets are not included in the above table, which are measured at cost.

[(2)] As of 31 December 2013, marketable securities amounting to TL 3.672 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial instrument

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
Financial assets	**Loans and receivables**	**Investments, including derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2014							
Due from banks (including central banks)	21.092.096	--	21.092.096	--	--	--	--
Financial assets at fair value through profit or loss:							
-Trading securities [(2)]	--	*102.360*	*102.360*	*98.561*	--	--	*98.561*
-Derivative financial instruments	--	*125.452*	*125.452*	--	*125.452*	--	*125.452*
Loans and advances	101.620.357		101.620.357	--	--	--	--
Investment securities:							
-Available-for-sale investment securities [(1)]	--	*9.196.859*	*9.196.859*	*9.168.734*	--	--	*9.168.734*
-Held-to-maturity investment securities	--	*17.869.082*	*17.869.082*	--	--	--	--
Finance lease receivables	1.862.377	--	1.862.377	--	--	--	--
Insurance premium receivables	213.341	--	213.341	--	--	--	--
	124.788.171	**27.293.753**	**152.081.924**				
31 December 2013							
Due from banks (including central banks)	21.344.889	--	21.344.889	--	--	--	--
Financial assets at fair value through profit or loss:				--	--	--	
-Trading securities [(2)]	--	*46.650*	*46.650*	*42.978*	--	--	*42.978*
-Derivative financial instruments	--	*140.315*	*140.315*	--	*140.315*	--	*140.315*
Loans and advances	84.889.760	--	84.889.760	--	--	--	--
Investment securities:							
-Available-for-sale investment securities [(1)]	--	*9.828.961*	*9.828.961*	*9.811.340*	--	--	*9.811.340*
-Held-to-maturity investment securities	--	*18.973.598*	*18.973.598*	--	--	--	--
Finance lease receivables	1.633.695	--	1.633.695	--	--	--	--
Insurance premium receivables	203.433	--	203.433	--	--	--	--
	108.071.777	**28.989.524**	**137.061.301**				

[(1)]As of 31 December 2014 share certificates amounting to TL 28.115 (31 December 2013: TL 17.621) in available for sale financial assets are not included in the above table, which are measured at cost.

[(2)] As of 31 December 2014, marketable securities amounting to TL 3.799 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

(Currency – In thousands of Turkish lira ("TL"))

6. Financial instrument (continued)

***Carrying amounts and fair values** (continued)*

	Carrying amount			Fair value			
Financial liabilities	**Loans and borrowings**	**Derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2014							
Deposits from banks	17.182.545	--	17.182.545	--	--	--	--
Deposits from customers	86.466.228	--	86.466.228	--	--	--	--
Obligations under repurchase agreements	8.427.354	--	8.427.354	--	--	--	--
Loans and advances from banks	15.951.065	--	15.951.065	--	--	--	--
Interbank money market borrowings	338.583	--	338.583	--	--	--	--
Derivative financial instruments	--	184.729	184.729	--	*184.729*	--	*184.729*
Debt securities issued	6.080.191	--	6.080.191	--	--	--	--
	134.445.966	**184.729**	**134.630.695**				
31 December 2013							
Deposits from banks	10.017.304	--	10.017.304	--	--	--	--
Deposits from customers	90.366.851	--	90.366.851	--	--	--	--
Obligations under repurchase agreements	779.532	--	779.532	--	--	--	--
Loans and advances from banks	16.574.894	--	16.574.894	--	--	--	--
Interbank money market borrowings	481.944	--	481.944	--	--	--	--
Derivative financial instruments	--	53.492	53.492	--	*53.492*	--	*53.492*
Debt securities issued	4.147.749	--	4.147.749	--	--	--	--
	122.368.274	**53.492**	**122.421.766**				

(Currency – In thousands of Turkish lira ("TL"))

7. Operating segments

The Group has five reportable segments, corporate, commercial, entrepreneur, treasury/investment and other 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.

31 December 2014	Corporate	Commercial	Entrepreneur	Treasury /Investment[2]	Other[1]	Eliminations	Group
Interest income	1.715.601	1.287.454	11.227.287	9.084.905	215.479	(11.811.616)	11.719.110
Interest expense	(1.117.412)	(726.899)	(8.866.132)	(7.409.332)	(76.318)	11.811.616	(6.384.477)
Net interest income	**598.189**	**560.555**	**2.361.155**	**1.675.573**	**139.161**	**--**	**5.334.633**
Net fee and commission income	184.082	129.290	584.842	143.861	(92.910)	--	949.165
Net trading income from securities	--	--	--	300.329	--	--	300.329
Net trading income / (loss) from derivative transactions	--	--	--	(1.421.872)	5.077	--	(1.416.795)
Foreign exchange gain/(losses), net	--	--	--	1.185.514	8.185	--	1.193.699
Net impairment losses on loans and advances	(308.249)	(95.508)	(271.724)	(189.525)	(46.308)	--	(911.314)
Income from insurance operations	--	--	--	--	641.426	--	641.426
Cost of insurance operations	--	--	--	--	(525.342)	--	(525.342)
Dividend income	--	--	--	8.454	3.539	--	11.993
Other income	7.660	68.259	126.178	48.882	102.465	--	353.444
Other expenses	(20.189)	(62.934)	(1.357.844)	(1.599.815)	(99.095)	--	(3.139.877)
Profit before income tax	**461.493**	**599.662**	**1.442.607**	**151.401**	**136.198**	**--**	**2.791.361**
Income tax expense	--	--	--	(489.610)	(36.860)	--	(526.470)
Profit for the year	**461.493**	**599.662**	**1.442.607**	**(338.209)**	**99.338**	**--**	**2.264.891**

[1] Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Faktoring AŞ and Bileşim AŞ transactions are shown in other column.

[2] Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in "treasury/investment" column.

(Currency – In thousands of Turkish lira (“TL”))

7. Operating segments (continued)

31 December 2013	Corporate	Commercial	Entrepreneur	Treasury /Investment[2]	Other[1]	Eliminations	Group
Interest income	1.220.629	947.019	8.852.094	7.017.914	146.052	(8.792.431)	9.391.277
Interest expense	(688.595)	(517.992)	(6.972.619)	(4.964.185)	(46.534)	8.792.431	(4.397.494)
Net interest income	**532.034**	**429.027**	**1.879.475**	**2.053.729**	**99.518**	**--**	**4.993.783**
Net fee and commission income	179.745	98.288	582.839	6.166	(14.213)	--	852.825
Net trading income from securities	--	--	--	323.093	277	--	323.370
Net trading loss from derivative transactions	--	--	--	470.863	(8.749)	--	462.114
Foreign exchange gain/(losses), net	--	--	--	(550.288)	11.874	--	(538.414)
Net impairment losses on loans and advances	(13.858)	(79.201)	(243.843)	(79.520)	(34.890)	--	(451.312)
Income from insurance operations	--	--	--	--	623.949	--	623.949
Cost of insurance operations	--	--	--	--	(408.378)	--	(408.378)
Dividend income	--	--	--	9.629	97	--	9.726
Other income	38.254	41.594	290.240	15.982	61.585	--	447.655
Other expenses	(24.560)	(63.615)	(1.190.615)	(1.486.846)	(77.711)	--	(2.843.347)
Profit before income tax	**711.615**	**426.093**	**1.318.096**	**762.808**	**253.359**	**--**	**3.471.971**
Income tax expense	--	--	--	(577.909)	(39.168)	--	(617.077)
Profit for the year	**711.615**	**426.093**	**1.318.096**	**184.899**	**214.191**	**--**	**2.854.894**

[1] Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ and Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are shown in other column.

[2] Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

(Currency – In thousands of Turkish lira (“TL”))

7. Operating segments (continued)

The segment assets and liabilities as at 31 December 2014 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other[1]	Group
Segment assets	14.891.438	16.240.430	62.906.645	59.917.951	2.815.067	156.771.531
Investment in equity-accounted investees	--	--	--	219.799	--	219.799
Total assets	**14.891.438**	**16.240.430**	**62.906.645**	**60.137.750**	**2.815.067**	**156.991.330**
Segment liabilities	12.717.430	6.203.245	71.404.187	48.183.710	1.956.145	140.464.717
Total liabilities	**12.717.430**	**6.203.245**	**71.404.187**	**48.183.710**	**1.956.145**	**140.464.717**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Other” column.

The segment assets and liabilities as at 31 December 2013 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other[1]	Group
Segment assets	13.131.995	12.791.413	52.248.327	60.354.468	2.553.500	141.079.703
Investment in equity-accounted investees	--	--	--	220.732	--	220.732
Total assets	**13.131.995**	**12.791.413**	**52.248.327**	**60.575.200**	**2.553.500**	**141.300.435**
Segment liabilities	12.909.956	5.056.247	70.647.925	35.719.208	2.875.562	127.208.898
Total liabilities	**12.909.956**	**5.056.247**	**70.647.925**	**35.719.208**	**2.875.562**	**127.208.898**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Other” column.

Geographical segments

The Group’s geographical segments are based on the location of Group’s assets. The Group’s activities are conducted predominantly in Turkey and Turkey is the home country of the Bank. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

The Group’s acquisition of properties and equipment, intangible assets and investment properties as of 31 December 2014 is mainly occurred in Turkey.

(Currency – In thousands of Turkish lira ("TL"))

8. Cash on hand

At 31 December 2014 and 31 December 2013, cash on hand comprised the following:

	31 December 2014	31 December 2013
Cash on hand		
- Turkish lira	*755.299*	*627.718*
- Foreign currency	*227.535*	*185.571*
Precious metals (gold)	17.301	2.786
Other liquid assets	345	292
Total cash on hand	**1.000.480**	**816.367**

9. Balances with Central Bank

	31 December 2014	31 December 2013
Unrestricted balances with Central Bank		
Demand deposits – Turkish Lira	3.389.735	2.164.297
Demand deposits – Foreign currency	1.360.238	1.570.064
	4.749.973	**3.734.361**
Reserve deposits		
Reserve deposits – Turkish Lira	14.358	9.107
Reserve deposits – Foreign currency	14.567.125	15.461.560
	14.581.483	**15.470.667**
Total balances with Central Bank	**19.331.456**	**19.205.028**

According to the Communiqué on Reserve Requirements, No. 2005/1 based on Article 40-II of The Law on the Central Bank of the Republic of Turkey No. 1211 as amended by Banking Law No. 5411, dated 19 October 2005, banks are obliged to maintain required reserves at the Central Bank for their liabilities. Deposits subject to reserve requirement include the deposits of real and legal persons, interbank deposits (excluding domestic interbank deposits) and the deposits collected in Turkey by the banks on behalf of their branches abroad.

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TL, USD, EUR/and or standard gold at the rates between 5% and 11,5% according to their maturities (31 December 2013: between 5% and 11,5% according to their maturities), foreign currency liabilities in USD, EUR/and or standard gold at the rates between 6% and 13% according to their maturities (31 December 2013: between 6% and 13% according to their maturities), respectively as per the Communique no.2011/11 and 2011/13 "Reserve Deposits" of the Central Bank of Turkey ("CBT").

With the Board of Minutes No. 827 dated 16 July 2012 of TRNC Central Bank's, required reserve ratios are between 5% and 8% for TL liabilities and 8% for foreign currency liabilities.

As per the change at 21 October 2014, CBT started to pay interests at November 2014 on TL reserves with 500 or 700 basis points lower than the weighted average fund costs shown on the CBT website.

With the Board of Minutes No. 129 dated 2006 of Central Bank of Macedonia, required reserve ratios are 8% for MKD currency liabilities and 15% for foreign currency liabilities.

(Currency – In thousands of Turkish lira ("TL"))

10. Due from banks

	31 December 2014	31 December 2013
Domestic banks		
Demand deposits – Turkish Lira	2.587	1.248
Demand deposits – Foreign currency	56	2.351
Time deposits – Turkish Lira	95.979	61.493
Time deposits – Foreign currency	567.395	579.441
	666.017	**644.533**
Foreign banks		
Demand deposits – Turkish lira	45.910	83.283
Demand deposits – Foreign currency	259.227	166.973
Time deposits – Turkish Lira	--	17.027
Time deposits – Foreign currency	487.379	997.361
	792.516	**1.264.644**
Money market placements[1]	**302.107**	**230.684**
Total due from banks	**1.760.640**	**2.139.861**

[1] Money market placements include interest income accrual amounting to TL 34 (31 December 2013: TL 211).

For cash flow purposes, the bank balances and money market placements having original maturity of less than 3 months were classified as cash and cash equivalents. These balances are amounting to TL 1.742.639 as at 31 December 2014 (31 December 2013: TL 2.133.861).

11. Securities portfolio

Financial assets at fair value through profit or loss

At 31 December 2014 and 31 December 2013, financial assets at fair value through profit or loss comprised the following:

	31 December 2014	31 December 2013
Turkish Government bonds and Eurobonds issued by the Turkish Government	65.732	34.862
Bonds issued by financial institutions	29.294	9.503
Share certificates	7.334	2.285
Total of financial assets at fair value through profit or loss	**102.360**	**46.650**

(Currency – In thousands of Turkish lira ("TL"))

11. Securities portfolio (continued)

At 31 December 2014 and 31 December 2013, available for sale securities portfolio comprised the following:

	31 December 2014	31 December 2013
Treasury bills and government bonds	9.168.734	9.811.340
Equity shares	28.125	17.621
Share certificates not quoted on a stock exchange	*47.032*	*36.528*
Allowance for impairment on equity shares	*(18.907)*	*(18.907)*
Total of available for sale securities	**9.196.859**	**9.828.961**

Available-for-sale securities include securities given as collateral amounting to TL 994.309 (31 December 2013: TL 1.029.922). As of 31 December 2014, available-for-sale investment securities include securities pledged under repurchase agreements amounting to TL 1.286.912 (31 December 2013: TL 4.638).

The equity shares in available for sale portfolio are unquoted and detailed as follows:

	31 December 2014	31 December 2013
Macar-Halk Bank Magysrorszagi VolksBank RT	19.344	19.344
IMKB Takas ve Saklama Bankası AŞ	8.501	3.671
Bankalararası Kart Merkezi AŞ	3.803	3.803
Kredi Kayıt Bürosu AŞ	2.516	2.516
Kredi Garanti Fonu İşletme ve Araştırma AŞ	4.240	4.240
Uluslararası Garagum Ortaklar Bankası	1.851	1.851
Other	6.777	1.103
Allowance for impairment on equity securities	(18.907)	(18.907)
Total equity shares in available for sale investments	**28.125**	**17.621**

The details of allowance for impairment are as follows:

	31 December 2014	31 December 2013
Macar-Halk Bank Magysrorszagi VolksBank RT	17.280	17.280
Uluslararası Garagum Ortaklar Bankası	1.627	1.627
Allowance for impairment on equity securities	**18.907**	**18.907**

(Currency – In thousands of Turkish lira ("TL"))

11. Securities portfolio (continued)

Held to maturity investment securities comprised the following items:

	31 December 2014	31 December 2013
Government bonds	17.858.313	18.966.304
Other securities	10.769	7.294
Total	**17.869.082**	**18.973.598**

Held to maturity investment securities include securities pledged under repurchase agreements and given as collateral amounting to TL 6.992.376 and TL 3.802.268 (31 December 2013: TL 764.916 and TL 3.210.176), respectively.

	31 December 2014	31 December 2013
Held to maturities portfolio:		
Quoted on a stock exchange	17.186.321	17.745.799
Not quoted	682.761	1.227.799
Total	**17.869.082**	**18.973.598**

The movements of held to maturity investment securities for the years ended 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Beginning balance	18.973.598	13.643.091
Foreign currency differences	94.395	(30)
Purchases during the year(1)	4.234.250	10.414.943
Disposals through sales and redemptions(2)	(5.433.161)	(5.084.406)
Balance at the end of the period	**17.869.082**	**18.973.598**

(1) Interest income accrual difference between 31 December 2014 amounting to TL 1.546.425 and 31 December 2013 amounting to TL 1.133.097 has been included in purchases row.

(2) In accordance with the reclassification exceptions defined in International Accounting Standards 39-Financial Instruments: Recognition and Measurement, as of 31 December 2013, the Bank reclassified EUR 264.347 (TL 606.491) and USD 342.113 (TL 612.382) of financial assets from held to maturity investments portfolio to available for sale portfolio. Related amount was presented in "Disposals Through Sales and Redemptions" row.

(3) In accordance with the rules defined in International Accounting Standards 39-Financial Instruments: Recognition and Measurement, as of 31 December 2013, the Bank reclassified TL 4.039.794 thousands and USD 502.575 (TL 982.535) thousands of financial assets from available for sales portfolio to held to maturity investments portfolio. Related amount was presented in "Purchases during the year" row.

(Currency – In thousands of Turkish lira ("TL"))

12. Loans and advances

	31 December 2014	31 December 2013
Short term loans		
Guaranteed export loans	2.812.113	2.314.138
Other guaranteed loans	14.453.714	11.675.820
Other non-guaranteed loans	4.215.011	4.126.599
Loans provided to financial sector	848.285	544.114
Loans provided to foreign institutions	51.640	39.183
Non-guaranteed export loans	455.596	236.450
Factoring receivables	361.345	325.332
Interest accruals	290.563	230.335
	23.488.267	**19.491.971**
Medium and long term loans		
Guaranteed other investment and operating loans	49.095.232	42.664.096
Other non-guaranteed loans	25.557.280	20.840.967
Loans given to foreign institutions	402.814	298.737
Loans given to financial sector	1.376.692	770.810
Interest accruals	986.575	790.998
	77.418.593	**65.365.608**
Total performing loans and advances	**100.906.860**	**84.857.579**
Non-performing loans and advances and allowance for impairment		
Gross non-performing loans	3.719.046	2.264.208
Specific allowance for impairment on loans	(2.576.590)	(1.887.856)
Portfolio allowance for impairment on loans	(428.959)	(344.171)
Loans and advances, net	**101.620.357**	**84.889.760**

The movement in the allowance for impairment on loans for the year ended 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Balance on 1 January	(2.232.027)	(1.852.053)
Net impairment loss for the year:	(773.522)	(379.974)
- *Charge for the year*	*(1.103.749)*	*(685.027)*
- *Recoveries and reversals*	*330.227*	*305.053*
Balance at 31 December	**(3.005.549)**	**(2.232.027)**

(Currency – In thousands of Turkish lira (“TL”))

13. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December 2014 and 31 December 2013, insurance receivables comprised the following:

	31 December 2014	31 December 2013
Receivables from reinsurance and insurance companies	148.267	130.578
Receivables from agencies, brokers and intermediaries	64.147	72.427
Cash deposited to insurance and reinsurance companies	21.942	17.176
Total insurance receivables	**234.356**	**220.181**
Allowance for non-performing insurance receivables	(21.015)	(16.748)
Insurance receivables, net	**213.341**	**203.433**

The details of guarantees for the Group’s insurance receivables are presented below:

	31 December 2014	31 December 2013
Mortgage notes	11.936	13.772
Letters of guarantees	4.018	4.006
Treasury bills and government bonds	500	381
Other guarantees	352	390
Total	**16.806**	**18.549**

The movement in the allowance for impairment in respect of insurance receivables for the periods ended 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Balance at 1 January	16.748	15.342
Impairment loss recognised	6.036	2.240
Collections during the period	(1.769)	(834)
Balance at 31 December	**21.015**	**16.748**

(Currency – In thousands of Turkish lira ("TL"))

13. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

Insurance technical reserves as of 31 December 2014 and 31 December 2013 are detailed in the tables below:

	31 December 2014	31 December 2013
Life mathematical reserve	218.145	226.125
Unearned premiums reserve	294.617	263.214
Claims provision	275.666	179.713
Unexpired risk reserve	9.474	6.224
Other technical reserves	1.295	1.028
Total technical reserve	**799.197**	**676.304**
Other insurance liabilities	32.197	39.366
Total insurance contract liabilities	**831.394**	**715.670**

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2014	31 December 2013
Demir-Halk Bank NV	205.255	206.348
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	14.544	14.384
Equity accounted investees	**219.799**	**220.732**

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

	Ownership	Total assets	Equity	Profit / (loss) for the year
2014				
Demir-Halk Bank NV	30,00%	5.226.693	650.523	33.943
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	46.518	46.214	508
2013				
Demir-Halk Bank NV	30,00%	5.063.596	671.918	39.515
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	47.072	46.801	152

(Currency – In thousands of Turkish lira ("TL"))

15. Finance lease receivables

Maturity structure of investments on financial lease:

	31 December 2014		31 December 2013	
	Gross	Net	Gross	Net
Less than 1 year	606.215	483.052	491.757	374.933
Between 1-4 years	1.189.060	1.028.472	1.017.878	883.033
More than 4 years	362.702	350.853	396.245	375.729
Total	**2.157.977**	**1.862.377**	**1.905.880**	**1.633.695**

Information on gross investments of financial lease:

	31 December 2014	31 December 2013
Gross financial lease investment	2.157.977	1.905.880
Unearned revenues from financial lease	(295.600)	(272.185)
Net finance lease receivable	**1.862.377**	**1.633.695**

Information on receivables from non- performing loans of financial lease:

	31 December 2014	31 December 2013
Non-performing financial lease receivables	221.766	167.151
Specific provisions	(128.999)	(49.455)
Total	**92.767**	**117.696**

The movement in the allowance for impairment on finance lease receivables for the year ended 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Balance on 1 January	(49.455)	(34.708)
Net impairment loss for the year:	(80.108)	(14.888)
- Charge for the year	*(80.692)*	*(26.885)*
- Recoveries and reversals	*584*	*11.997*
Foreign currency differences	564	141
Balance at 31 December 2014	**(128.999)**	**(49.455)**

(Currency – In thousands of Turkish lira ("TL"))

16. Property and equipment

	Land and buildings	Lease hold improve ments	Tangible assets obtained for non-performing loans	Other movable tangible assets	Total
Cost					
Balance at 1 January 2013	1.003.087	147.705	428.760	553.375	2.132.927
Additions	27.458	27.311	162.167	105.441	322.377
Acquired through business combinations	--	--	--	9.429	9.429
Disposals	(16.498)	(30.908)	(237.125)	(24.152)	(308.683)
Transfers	(6.558)	--	94	(503)	(6.967)
Balance at 31 December 2013	**1.007.489**	**144.108**	**353.896**	**643.590**	**2.149.083**
Balance at 1 January 2014	1.007.489	144.108	353.896	643.590	2.149.083
Additions	116.882	31.673	249.123	88.586	486.264
Disposals	(4.087)	(31.880)	(121.736)	(29.699)	(187.402)
Transfers	(8.133)	115	(105)	--	(8.123)
Balance at 31 December 2014	**1.112.151**	**144.016**	**481.178**	**702.477**	**2.439.822**
Depreciation and impairment losses					
Balance at 1 January 2013	(196.148)	(68.105)	(14.083)	(343.958)	(622.294)
Depreciation for the year	(13.500)	(29.199)	(3.730)	(61.525)	(107.954)
Acquired through business combinations	--	--	--	(5.943)	(5.943)
Disposals	596	24.432	4.050	12.350	41.428
Transfers	1.542	--	--	--	1.542
Balance at 31 December 2013	**(207.510)**	**(72.872)**	**(13.763)**	**(399.076)**	**(693.221)**
Balance at 1 January 2014	(207.510)	(72.872)	(13.763)	(399.076)	(693.221)
Depreciation for the year	(14.690)	(35.174)	(4.270)	(64.465)	(118.599)
Disposals	793	30.959	2.164	15.710	49.626
Transfers	2.317	--	(3)	6	2.320
Balance at 31 December 2014	**(219.090)**	**(77.087)**	**(15.872)**	**(447.825)**	**(759.874)**
Provision for impairment (-) at 1 January 2013	(6.520)		(7.997)		(14.517)
Additions			(2.389)		(2.389)
Disposals	904		5.702		6.606
Transfers					
Total Provision for impairment (-) at 1 January 2013	**(5.616)**		**(4.684)**		**(10.300)**
Provision for impairment (-) at 1 January 2014	**(5.616)**		**(4.684)**		(10.300)
Additions			(2.037)		(2.037)
Disposals	3.796		330		4.126
Transfers	(35)				(35)
Total Provision for impairment (-) at 1 January 2014	**(1.855)**		**(6.391)**		**(8.246)**
Carrying amounts					
At 1 January 2013	**806.939**	**79.600**	**414.677**	**194.900**	**1.496.116**
At 31 December 2013	**794.363**	**71.236**	**335.449**	**244.515**	**1.445.562**
At 31 December 2014	**891.205**	**66.929**	**458.914**	**254.688**	**1.671.737**

The fair values of land and buildings and tangible assets obtained for non-performing loans were determined from market-based evidence by appraisals which are undertaken by qualified external appraisers. The Group renews the revaluations every year and recognizes impairment loss when the recoverable amounts of such assets become less than their carrying amounts.

(Currency – In thousands of Turkish lira ("TL"))

17. Intangible assets

	Intangible assets	Total
Cost		
Balance at 1 January 2013	67.522	67.522
Additions	21.069	21.069
Acquired through business combinations	4.785	4.785
Disposals	(2.484)	(2.484)
Balance at 31 December 2013	**90.892**	**90.892**
Balance at 1 January 2014	90.892	90.892
Additions	29.458	29.458
Disposals	(1.736)	(1.736)
Balance at 31 December 2014	**118.614**	**118.614**
Amortisation		
Balance at 1 January 2013	(11.515)	(11.515)
Amortisation for the year	(7.567)	(7.567)
Acquired through business combinations	(4.039)	(4.039)
Disposals	14	14
Balance at 31 December 2013	**(23.107)**	**(23.107)**
Opening balance, 1 January 2014	(23.107)	(23.107)
Amortisation for the year	(11.712)	(11.712)
Disposals	54	54
Balance at 31 December 2014	**(34.765)**	**(34.765)**
Carrying amounts		
At 1 January 2013	**56.007**	**56.007**
At 31 December 2013	**67.785**	**67.785**
At 31 December 2014	**83.849**	**83.849**

18. Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The non-current assets held for sale of the Group as of 31 December 2014 is TL 8.519 (31 December 2013: TL 6.714).

19. Investment property

	31 December 2014	31 December 2013
Balance at 1 January	36.344	28.156
Acquisitions	--	8.188
Transfer	(11.658)	--
Disposals	--	--
Depreciation	(157)	--
Balance at 31 December	**24.529**	**36.344**

(Currency – In thousands of Turkish lira ("TL"))

20. Other assets

At 31 December 2014 and 31 December 2013, other assets comprised the following:

	31 December 2014	31 December 2013
Clearing house account	367.667	302.939
Prepaid expense	341.673	494.846
Receivables from credit card payments	166.611	196.014
Receivables from asset sale on credit terms	129.594	136.539
Guarantees given for derivative financial instruments	48.152	--
Advances given for lease transactions	26.864	60.061
Cash guarantees given	19.297	26.150
Other assets	360.676	324.389
Total other assets	**1.460.534**	**1.540.938**

21. Deposits

At 31 December 2014 and 31 December 2013, deposits from banks comprised the following:

	31 December 2014	31 December 2013
Demand deposits	5.414.668	3.585.113
Time deposits	11.767.877	6.432.191
Deposits from banks	**17.182.545**	**10.017.304**

As at 31 December 2014, deposits from banks include TL accounts amounting to TL 9.713.753 (31 December 2013: TL 4.008.217) and foreign currency accounts amounting to TL 7.468.792 (31 December 2013: TL 6.009.087) in total.

At 31 December 2014 and 31 December 2013, deposits from customers comprised the following:

	31 December 2014		31 December 2013	
	Demand	Time	Demand	Time
Saving deposits	3.931.504	26.426.884	3.284.266	26.505.484
Foreign currency deposits	6.131.417	20.665.504	5.605.399	24.392.131
Commercial deposits	3.160.176	14.550.957	3.132.308	15.287.445
Public institutions and other deposits	3.000.635	8.599.151	3.085.093	9.074.725
Deposits from customers	**16.223.732**	**70.242.496**	**15.107.066**	**75.259.785**

(Currency – In thousands of Turkish lira ("TL"))

22. Obligations under repurchase agreements

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

	31 December 2014	**31 December 2013**
Obligations under repurchase agreements	8.427.354	779.532
Total	**8.427.354**	**779.532**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2014, the maturities of the obligations varied from one day to 1 year (31 December 2013: one day to 1 year).

23. Loan and advances from banks

At 31 December 2014 and 31 December 2013, loans and advances from banks comprised the following:

	31 December 2014	**31 December 2013**
Borrowings	14.181.774	15.086.352
Funds	1.769.291	1.488.542
Total	**15.951.065**	**16.574.894**

At 31 December 2014 and 31 December 2013, borrowings comprised the following:

	31 December 2014		**31 December 2013**	
	Short term	**Long term**	**Short term**	**Long term**
Loans and advances from domestic banks and institutions	794.369	223.579	1.369.203	223.352
Loans and advances from foreign banks and institutions	7.077.368	6.086.458	7.102.173	6.391.624
Borrowings	**7.871.737**	**6.310.037**	**8.471.376**	**6.614.976**

Borrowings are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as of 31 December 2014 (31 December 2013: None).

Funds borrowed include funds obtained that are granted as loans as specified in the agreements signed between the Bank, and the ministries or the institutions that the funds belong to.

(Currency – In thousands of Turkish lira ("TL"))

23. Loan and advances from banks (continued)

As at 31 December 2014 and 31 December 2013, interest rates and maturities of bank borrowings are as follows:

Fixed rates			
31 December 2014	**Amount**	**Interest rate**	**Maturity**
USD borrowings	6.527.234	0% - 5,69%	January 2015 - September 2038
EUR borrowings	4.542.048	0% - 0,03%	January 2015 - September 2038
TL borrowings	1.343.590	5,00% - 10,03%	January 2015 - December 2018
Other borrowings	29.958	2,21%	February 2015
Total	**12.442.830**		

Floating rates			
31 December 2014	**Amount**	**Interest rate**	**Maturity**
USD borrowings	257.600	Libor+0,50	July 2015
EUR borrowings	1.481.344	Euribor+0,50	July 2015
Total	**1.738.944**		

Fixed rates			
31 December 2013	**Amount**	**Interest rate**	**Maturity**
USD borrowings	2.607.493	0% - 5,69%	January 2014 - September 2038
EUR borrowings	3.133.746	0,57% - 6,22%	January 2014 - September 2038
TL borrowings	585.053	0,00% - 9,00%	January 2014 - June 2020
Other borrowings	39.294	0,28% - 3,50%	January 2014 - December 2019
Total	**6.365.586**		

Floating rates			
31 December 2013	**Amount**	**Interest rate**	**Maturity**
USD borrowings	549.080	Libor+0,60	July 2014
EUR borrowings	1.640.141	Euribor+0,60	July 2014
Total	**2.189.221**		

As of 31 December 2014 borrowings from foreign banks and institutions include syndicated loans amounting to USD 112.000 thousand and EUR 512.000 thousand (31 December 2013: USD 259.000 thousand and EUR 562.000 thousand).

(Currency – In thousands of Turkish lira ("TL"))

24. Interbank money market borrowings

	31 December 2014	31 December 2013
Payables to stock exchange money market	282.510	218.476
On behalf of customer	56.073	263.468
Total	**338.583**	**481.944**

Payables to stock exchange money markets have a maturity of 31 days (31 December 2013: 31 days) with between 9,37% and 10,80% (31 December 2013: between 6,65% and 8,30) of interest rates.

25. Taxation

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

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

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

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

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

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

(Currency – In thousands of Turkish lira (“TL”))

25. Taxation (continued)

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.

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.

Transfer pricing

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

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

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country as of 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	**31 December 2013**
TRNC	10%	10%
Bahrain	--	--
Republic of Macedonia	10%	10%

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

	31 December 2014	**31 December 2013**
Income tax liability	927.784	302.324
Income tax paid in advance	(575.041)	(239.623)
Income tax payables	**352.743**	**62.701**

(Currency – In thousands of Turkish lira ("TL"))

25. Taxation (continued)

Deferred taxes

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

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

Deferred tax assets and liabilities are attributable to the following:

	31 December 2014	31 December 2013
Valuation differences on financial assets and liabilities	86.475	(124.952)
Provisions	176.684	127.384
Portfolio and specific provision for impairment on loans and advances	132.554	97.363
Other	44.246	4.897
Deferred tax assets, net	**439.959**	**104.692**

As of 31 December 2014, the Group also has net deferred tax liability amounting to TL 5.951 (31 December 2013: TL 3.339).

Movement of net deferred tax can be presented as follows:

	31 December 2014	31 December 2013
Deferred tax, net at 1 January	101.353	291.598
Deferred income tax recognised in other comprehensive income	(97.645)	124.508
Deferred tax recognised in the profit or loss	430.300	(314.753)
Deferred tax, net	**434.008**	**101.353**

An analysis of the Group's income tax expense for the year ended 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
Current tax expense		
Current period	956.770	302.324
Deferred tax expense/ (benefit)		
Origination and reversal of temporary differences	(430.300)	314.753
Total income tax expense	**526.470**	**617.077**

(Currency – In thousands of Turkish lira ("TL"))

25. Taxation (continued)

Reconciliation of effective tax rate

The reported taxation charge for the year ended 31 December 2014 and 31 December 2013 are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	31 December 2014		31 December 2013	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**2.791.361**		**3.471.971**	
Income tax using the Bank's domestic tax rate	558.272	20,00	694.394	20,00
Tax exempt income	(62.640)	(2,24)	(124.488)	(3,59)
Non-deductible expenses	30.838	1,10	47.171	1,36
Income tax expense	**526.470**	**18,86**	**617.077**	**17,77**

26. Other liabilities and provisions

	31 December 2014	31 December 2013
Other liabilities		
Cooperative deposit blockages	983.849	911.368
Credit card members restricted account	904.478	558.728
Cheques clearance account	753.618	601.536
Unearned revenue	435.182	391.681
Taxes and dues payable	204.288	288.949
Banking transactions	109.552	198.845
Resource utilization support fund	26.046	23.578
Payment orders	23.994	23.241
Collaterals received for derivative instruments	13.536	12.100
Import transfer orders	8.584	17.536
Other liabilities	225.011	114.873
Total	**3.688.138**	**3.142.435**
Provisions		
Employee termination benefits	372.392	311.216
Unused vacation provision	132.524	114.402
Provision on non-cash loans	182.023	148.253
Provision on lawsuits	85.109	26.330
Provisions for credit card bonuses	13.045	11.671
Other(1)	170.703	251.115
Total	**955.796**	**862.987**

(1) As of 31 December 2013 other provisions includes a general reserve amounting to TL 132.231 provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

(Currency – In thousands of Turkish lira ("TL"))

26. Other liabilities and provisions (continued)

Employee termination benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of full TL 3.438,22 and full TL 3.254,44 at 31 December 2014 and 31 December 2013 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements the Group reflected a liability calculated using the Actuarial Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to full TL 3.541,37 effective 1 January 2015.

The principal actuarial assumptions used in the calculation of the total liability at the reporting date are as follows:

	31 December 2014	31 December 2013
Discount rate for pension plan liabilities	2,60%	3,20%
Expected rates of salary increase	6,20%	6,60%
Inflation	6,00%	6,40%

Movements in the present value of the defined benefit obligation were as follows:

	31 December 2014	31 December 2013
Defined benefit obligation at 1 January	311.216	302.418
Current service cost	26.280	27.755
Interest cost	29.197	22.356
Acquisition of subsidiary	--	4.225
Actuarial losses/(gains)	35.840	(18.405)
Previous Charge for the last financial period	862	--
Payment/ limitation of benefits/ loss (gain) because of discharge	(241)	3.314
Benefits paid	(30.762)	(30.447)
Defined benefit obligation at 31 December	**372.392**	**311.216**

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

	31 December 2014	31 December 2013
Current service cost	26.280	27.755
Interest cost	29.179	22.356
Previous Charge for the last financial period	862	--
Payment/ limitation of benefits/ loss (gain) because of discharge	(241)	3.314
	56.080	**53.425**

(Currency – In thousands of Turkish lira ("TL"))

27. Derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	31 December 2014			31 December 2013		
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent
Currency swap contracts	35.106	135.720	21.527.565	107.836	21.094	17.384.112
Other swap contracts	9.087	--	1.866.286	5.064	929	1.356.800
Other	81.259	49.009	7.073.946	27.415	31.469	3.771.695
Total	**125.452**	**184.729**	**30.467.797**	**140.315**	**53.492**	**22.512.607**

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

28. Debt securities issued

	31 December 2014	31 December 2013
Debt securities issued at amortized cost	6.080.191	4.147.749
Total of debt securities issued	**6.080.191**	**4.147.749**

On 26 September 2014 and 11 December 2014, the treasury bills respectively amounting to TL 750.000 with maturity of 175 days and amounting to TL 1.000.000 with maturity of 175 days are issued by the Bank. On 19 July 2012 and 5 February 2013, the bonds respectively amounting to USD 750.000 thousands with maturity of 5 years and amounting to USD 750.000 thousands with maturity of 7 years are issued by the Bank.

29. Share capital

As at 31 December 2014, the authorized nominal share capital of the Bank amounts to TL 1.250.000 (31 December 2013: TL 1.250.000). The Bank's paid-in capital is divided into 1,250,000,000 shares, each with a nominal value of full TL 1.

	31 December 2014	31 December 2013
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
Shared capital issued	**2.578.184**	**2.578.184**

(Currency – In thousands of Turkish lira (“TL”))

30. Reserves and dividends paid and proposed

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

Other reserves

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity’s share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity’s share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 31 December 2014 are TL 1.253.073 (31 December 2013: TL 1.075.946).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve as at 31 December 2014 is TL 70.654 (31 December 2013: TL 87.462).

Dividends paid and proposed

As of the reporting date, the Bank has paid TL 275.992 out of 2013 profit.

31. Earnings per share

Basic earnings per share (EPS) 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 of 31 December 2014 and 31 December 2013.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	31 December 2014	31 December 2013
Net profit attributable to ordinary shareholders for basic earnings per share	2.247.874	2.844.828
Weighted average number of ordinary shares for basic earnings per share	1.250.000.000	1.250.000.000
Basic earnings per share (full TL per share)	**1,7983**	**2,2759**

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.

32. Related parties

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group’s Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration (incorporated in Turkey). Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

(Currency – In thousands of Turkish lira ("TL"))

32. Related parties (continued)

Transactions with key management personnel

Key management personnel comprise of the Group's directors and key management executive officers.

As of 31 December 2014 and 31 December 2013 the Group's directors and executive officers have no outstanding personnel loans from the Bank.

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	31 December 2014	31 December 2013
Salaries and short-term benefits	19.564	15.867

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank's management believes that all such agreements or protocols are on terms that are at least as advantageous to the Bank as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

Related party balances and transactions

2014	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission Income
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	1.878	21.678	--	2.273	6
Kredi Kayıt Bürosu AŞ	--	--	5	--	--	--
Bankalararası Kart Merkezi AŞ	--	--	--	--	56	--
Total	**--**	**1.878**	**21.683**	**--**	**2.329**	**6**

2013	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission Income
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	1.119	21.624	--	1.438	8
Kredi Kayıt Bürosu AŞ	--	--	3	--	4	--
Bankalararası Kart Merkezi AŞ	--	--	2.000	--	--	--
Total	**--**	**1.119**	**23.627**	**--**	**1.442**	**8**

(Currency – In thousands of Turkish lira ("TL"))

33. Other operating income

	31 December 2014	31 December 2013
Reversal from prior years' provision (*)	156.046	237.912
Service income	73.281	69.446
Gain on sale of property and equipment	70.129	86.627
Rent income	7.129	23.283
Other	36.516	18.472
Total	**343.101**	**435.740**

(*) As of 31 December 2014, the Bank reversed the general reserve amounting to TL 132.231 which had been recognized as expense on previous periods.

34. Other operating expenses

	31 December 2014	31 December 2013
Staff costs:		
Personnel expenses	*1.350.780*	*1.182.085*
Retirement pay provision	*56.080*	*53.425*
Administrative expenses	1.057.108	1.088.766
Depreciation and amortization expense	132.349	121.783
Saving deposit insurance fund expenses	148.078	133.485
Taxes, duties, charges and premium expenses	117.206	112.880
Service expense	68.767	39.917
Provision expense for lawsuits	63.048	5.000
Other	146.461	106.006
Total	**3.139.877**	**2.843.347**

35. Fees and commission income and expenses

	31 December 2014	31 December 2013
Fees and commission income		
Banking	1.401.295	1.143.877
Brokerage	12.867	15.670
Total	**1.414.162**	**1.159.547**
Fees and commission expenses		
Banking	(464.139)	(305.670)
Brokerage	(858)	(1.052)
Total	**(464.997)**	**(306.722)**

(Currency – In thousands of Turkish lira ("TL"))

36. Additional cash flow information

	31 December 2014	31 December 2013
Cash on hand	1.000.135	816.075
Due from banks		
(with original maturity of less than 3 months)	1.437.633	1.900.566
Money market placements	302.107	230.473
Bank blockage balance [1]	(199.262)	(161.784)
Unrestricted balances with Central Bank	4.749.973	3.734.361
Other liquid assets	345	292
Cash and cash equivalents in the statement of cash flows	**7.290.931**	**6.519.983**

(1) Blocked accounts for technical reserves of Halk Hayat ve Emeklilik AŞ amounting to TL 182.627 (31 December 2013: TL 135.677) and of Halk Sigorta AŞ amounting to TL 16.635 (31 December 2013: 26.107), which are given as collateral to under secretariat of Treasury of Republic of Turkey.

The reserve deposits with Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

37. Commitments and contingencies

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

	31 December 2014	31 December 2013
Letters of guarantee issued	24.968.993	20.393.936
Letters of credit	3.923.602	3.825.259
Acceptance credits	3.068.156	1.944.803
Other	905.190	956.431
Total non-cash loans	**32.865.941**	**27.120.429**
Credit card limit commitments	10.329.418	9.896.720
Other commitments	8.806.740	8.005.135
Total	**52.002.099**	**45.022.284**

Fiduciary activities

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

The Group also manages 21 investment funds, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of six of Bank's fund. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

37. Commitments and contingencies (continued)

Letters of guarantee given to BIST and Borsa Istanbul Precious Metals and Diamond Market

As of 31 December 2014, according to the general requirements of the BIST, letters of guarantee amounting to TL 135.000 (31 December 2013: TL 327.800) was obtained from various local banks and were provided to BIST for bond and stock market transactions by the Group.

Litigation

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

Other

530 branch premises of the Bank are lease holder under operational leases. The lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

The Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Group. In the opinion of management no provision is necessary for this remote contingency.

38. Subsequent events

With the Decision No.2014/129 of Privatization High Council (PHC) 90% (ninety percent) or upon request %100 (hundred percent) of the shares of Halk Hayat ve Emeklilik A.Ş., the consolidated subsidiary of the Bank, will be made available for privatization through tender via "Block Sale" method and the remaining 10% (ten percent) of Halk Hayat ve Emeklilik AŞ shares will be available for sale to the buyer of the shares with the price specified in the tender. With the PHC Decision numbered 2014/130 and dated 29 December 2014, 89,18% of the shares in the capital of the Halk Sigorta AŞ, the consolidated subsidiary of the Bank, held by the Bank and 4,31% of the shares of Halk Sigorta AŞ held by Halk Yatırım Menkul Değerler AŞ corresponding to a total of 93,49% of the shares of Halk Sigorta A.Ş will be made available for purchase through tender via "Block Sale" method.

Tender announcement about the related sentence has been announced by the Republic of Turkey Prime Ministry Privatization Administration at 19 January 2015, and the process continues.

The issuance of bank bills amounting to USD 500.000.000 with maturity of 6 years, with maturity 11 February 2021, with 4,835% interest rate, with coupon rate of 4,75% per every six months have been approved by the Capital Markets Board at 3 February 2015. The Bank issued the bonds at 11 February 2015.

It was announced within the context of public disclosure dated 16 January 2015 in order to provide high quality banking services internationally and increase presence in the Balkan Region, even though the tender process for the purchase of 76,76% shares of Cacanska Banka A.D. operating in Serbia had been finalized on 2 December 2014, due to ongoing expectations about the potential of the banking sector and the economy of Serbia, the interest about the purchase of shares of Cacanska Banka A.D. is decided to be maintained.

Capital Markets Board of Turkey and Banking Regulation and Supervision Agency approved the Amendment of the Articles of Association regarding the increasing the Bank's paid-up capital from TL 1.250.000 to TL 2.250.000 by TL 1.000.000 in cash (right issue). The Amendment of the Articles of Association will be subject to approval of the Ministry Of Customs and Trade. Following the approval by the Ministry, the Amendments will be on the agenda of the Bank's General Assembly.