**NUROL YATIRIM BANKASI**
**ANONİM ŞİRKETİ**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2014

Deloitte

DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Maslak no1 Plaza
Eski Büyükdere Caddesi
Maslak Mahallesi No:1
Maslak, Sarıyer 34398
İstanbul, Türkiye

Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr

Mersis No: 0291001097600016
Ticari Sicil No : 304099

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

## *Report on the Financial Statements*

We have audited the accompanying financial statements of Nurol Yatırım Bankası Anonim Şirketi, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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 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 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 financial statements. The procedures selected depend on the auditor's 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, the auditor considers 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.

**Deloitte**

***Opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nurol Yatırım Bankası Anonim Şirketi as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT Bağımsız Denetim ve SMMM A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, 4 March 2015

**TABLE OF CONTENTS**

**NUROL YATIRIM BANKASI ANONİM ŞİRKETİ**
**STATEMENT OF FINANCIAL POSITION**
**AS OF 31 DECEMBER 2014**
*(Currency - In thousands of Turkish Lira)*

| | Note | 30 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | *4* | 194,901 | 81,391 |
| Reserve deposits at Central Bank | *5* | 17,491 | 6,013 |
| Held for trading investments | *6* | 5,136 | 7,186 |
| Available for sale investments | *7* | 58,755 | 82,573 |
| Loans and advances to customers | *8* | 356,456 | 241,190 |
| Property and equipment | *9* | 488 | 580 |
| Intangible assets | *10* | 1,021 | 1,090 |
| Other assets | *11* | 4,279 | 18,884 |
| **Total assets** | | **638,527** | **438,907** |
| **Liabilities** | | | |
| Funds borrowed | *12* | 119,332 | 238,126 |
| Debt securities issued | *13* | 204,629 | 102,308 |
| Other liabilities | *14* | 200,469 | 4,737 |
| Derivative financial instruments | *17* | 2,211 | 79 |
| Provisions | *15* | 2,974 | 2,595 |
| Current tax liability | | 2,033 | - |
| Deferred tax liability | *16* | 657 | 640 |
| **Total liabilities** | | **532,305** | **348,485** |
| **Equity** | | | |
| Share capital | *18* | 45,000 | 45,000 |
| Reserves | *18* | 23,034 | 23,101 |
| Retained earnings | | 38,188 | 22,321 |
| **Total equity** | | **106,222** | **90,422** |
| **Total liabilities and equity** | | **638,527** | **438,907** |

The accompanying notes are an integral part of these financial statements.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

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

*(Currency - In thousands of Turkish Lira)*

| | Note | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|---|
| Interest income | *19* | 61,125 | 32,500 |
| Interest expense | *19* | (28,015) | (18,266) |
| **Net interest income** | | **33,110** | **14,234** |
| Fee and commission income | *20* | 11,710 | 4,967 |
| Fee and commission expense | *20* | (2,011) | (1,780) |
| **Net fee and commission income** | | **9,699** | **3,187** |
| Net trading income / (loss) | *21* | (5,454) | (374) |
| Other operating income | *22* | 1,505 | 657 |
| | | **(3,949)** | **283** |
| **Operating income** | | **38,860** | **17,704** |
| Net impairment/recoveries on financial assets | *8* | (1,571) | (135) |
| Other provision expenses | | (374) | (489) |
| Personnel expenses | *23* | (7,937) | (8.920) |
| Depreciation and amortization | *9,10* | (784) | (563) |
| Administrative expenses | *24* | (8,021) | (7,281) |
| **Profit before income tax** | | **20,173** | **316** |
| Income tax expense | *16* | (4,306) | 200 |
| **Profit from continued operations** | | 15,867 | **516** |
| Income from discontinued operations | | - | - |
| Income tax provision from discontinued operations | | - | - |
| **Profit from discontinued operations** | | **-** | **-** |
| **Profit for the year** | | **15,867** | **516** |
| **Other comprehensive income** | | | |
| **Available-for-sale financial assets** | | | |
| Gains / (Loss) arising during the year | | (10) | (24,377) |
| Less: Reclassification adjustments for gains included in profit or loss | | - | - |
| Income tax relating to components of other comprehensive income | *16* | (57) | 1,226 |
| **Other comprehensive income for the year, net of income tax** | | **(67)** | **(23,151)** |
| **Total comprehensive (loss) / income for the year** | | **15,800** | **(22,635)** |

The accompanying notes are an integral part of these financial statements.

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

*(Currency - In thousands of Turkish Lira)*

| | Note | Share capital | Adjustment to share capital | Fair value reserve of available for sale financial assets | Legal reserves | Accumulated gain/(losses) | Total equity |
|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2013** | | 45,000 | - | 45,171 | 988 | 21,898 | 113,057 |
| Transfers to legal reserves | | - | - | - | 163 | (163) | - |
| **Total comprehensive income for the year** | | | | | | | |
| - Profit for the year | | - | - | - | - | 516 | 516 |
| Other comprehensive income for the year, net of tax | *18* | - | - | (23,221) | - | 70 | (23,151) |
| **Total other comprehensive income** | | - | - | - | - | - | - |
| **Total comprehensive income for the year** | | - | - | (23,221) | - | 586 | (22,635) |
| **Balance at 31 December 2013** | | 45,000 | - | 21,950 | 1,151 | 22,321 | 90,422 |
| **Balances at 1 January 2014** | | 45,000 | - | 21,950 | 1,151 | 22,321 | 90,422 |
| Transfers to legal reserves | | - | - | - | - | - | - |
| **Total comprehensive income for the year** | | | | | | | |
| - Profit for the year | | - | - | - | - | 15,867 | 15,867 |
| Other comprehensive income for the year, net of tax | *18* | - | - | (67) | - | - | (67) |
| **Total other comprehensive income** | | - | - | - | - | - | - |
| **Total comprehensive income for the year** | | - | - | (67) | - | 15,867 | 15,800 |
| **Balance at 31 December 2014** | | 45,000 | - | 21,883 | 1,151 | 38,188 | 106,222 |

The accompanying notes are an integral part of these financial statements.

*(Currency - In thousands of Turkish Lira)*

| | Note | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the year | | 15,867 | 516 |
| **Adjustments:** | | | |
| Depreciation and amortisation | | 508 | 563 |
| Current tax provision | *16* | 4,346 | - |
| Deferred tax | *16* | (40) | (130) |
| Provision for loan losses | *8* | 1,571 | 281 |
| Other provisions | | 442 | 588 |
| Accrual on derivative instruments | | (2,843) | 373 |
| Other accruals | | 2,167 | (461) |
| Foreign exchange loss / (gain) | | 14,678 | (1,196) |
| Other | | - | (2,583) |
| | | **36,696** | **(2,049)** |
| **Changes in operating assets and liabilities** | | | |
| Change in held for trading investments | | 7,006 | 540 |
| Change in loans and advances to customers | | (114,785) | (90,641) |
| Change in reserve deposits | | (11,389) | (788) |
| Change in other assets | | 15,309 | 2,750 |
| Change in other liabilities | | 194,098 | (7,011) |
| Change in borrowings | | (118,575) | 114,313 |
| Taxes paid | | (2,313) | - |
| **Net cash provided by / (used in) operating activities** | | **6,047** | **17,114** |
| **Cash flows from investing activities** | | | |
| Purchase of available for sale investments | | (27,284) | (50,354) |
| Proceed from sale of available for sale investments | | 51,350 | - |
| Purchase of property and equipment | *9* | (193) | (72) |
| Proceeds from sale of property and equipment | | - | 3 |
| Purchase of intangible assets | *10* | (154) | (553) |
| **Net cash (used in) / provided by investing activities** | | **23,719** | **(50,976)** |
| Proceeds from debt securities issued | | 98,422 | 100,000 |
| **Net cash provided by financing activities** | | **98,422** | **100,000** |
| **Effect of foreign exchange rate change on cash and cash equivalents** | | (14,678) | 1,196 |
| **Net increase/(decrease) in cash and cash equivalents** | | **113,510** | **67,334** |
| Cash and cash equivalents at 1 January | | 81,391 | 14,057 |
| **Cash and cash equivalents at 31 December** | | **194,901** | **81,391** |

The accompanying notes are an integral part of these financial statements.

*(Currency - In thousands of Turkish Lira)*

## 1. Corporate information

### General

Nurol Yatırım Bankası A.Ş. (the "Bank" or "Nurolbank") was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned and controlled by the Nurol Holding A.Ş.. Nurolbank operates as an investment bank and is also involved in corporate services such as financial leasing, lending and trade finance. According to the current legislation for investment banks, the Bank is not authorised to receive deposits from customers. The Bank's head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

The shareholders' structure of the Bank is as disclosed below:

| Shareholders | Total nominal value of the shares | Share percentage (%) |
|---|---|---|
| Nurol Holding A.Ş. | 35,171 | 78.16 |
| Nurol İnşaat ve Tic. A.Ş. | 7,182 | 15.96 |
| Other | 2,647 | 5.88 |

The shareholder having direct or indirect control over the shares of the Parent Bank is Nurol Group. The Group has operations in construction, defence, finance, tourism, health, mining, real estate, marketing and manufacturing industries through 33 firms within the Nurol Group, 4 joint ventures and 11 domestic-foreign associates and subsidiaries.

The Board of Directors comprised the following members:

| | |
|---|---|
| Nurettin Çarmıklı | *Chairman* |
| Erol Çarmıklı | *Deputy Chairman of Board* |
| M. Oğuz Çarmıklı | *Deputy Chairman of Board* |
| Dr. Ahmet Paşaoğlu | *Board Member* |
| S. Ceyda Çarmıklı | *Board Member* |
| Ahmet Şirin | *Board Member (Audit Committee Member)* |
| Yusuf Serbest | *Board Member* |
| Mehmet Meşe Başol | *Board Member (Corporate Governance Committee Member )* |
| Özgür Altuntaş | *Board Member – General Manager* |
| Ahmet Kerim Kemahlı | *Board Member (Audit Committee Member)* |

*(Currency - In thousands of Turkish Lira)*

## 2. Application of new and revised international financial reporting standards (IFRSs)

a. Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements

None.

b. New and Revised IFRSs applied with no material effect on the financial statements

| | |
|---|---|
| Amendments to IFRS 10, 12, IAS 27 | *Investment Entities*[1] |
| Amendments to IAS 32 | *Offsetting Financial Assets and Financial Liabilities*[1] |
| Amendments to IAS 36 | *Recoverable Amount Disclosures for Non-Financial Assets*[1] |
| Amendments to IAS 39 | *Novation of Derivatives and Continuation of Hedge Accounting*[1] |
| IFRIC 21 | *Levies*[1] |

[1] Effective for annual periods beginning on or after 1 January 2014.

**Amendments to IFRS 10, 12, IAS 27** ***Investment Entities***

This amendment with the additional provisions of IFRS 10 provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss.

**Amendments to IAS 32** ***Offsetting Financial Assets and Financial Liabilities***

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

**Amendments to IAS 36** ***Recoverable Amount Disclosures for Non-Financial Assets***

As a consequence of IFRS 13 *Fair Value Measurements*, there are amendments in the explanations about the measurement of the recoverable amount of an impaired asset. This amendment is limited to non-financial assets and paragraphs 130 and 134 of IAS 36 have been changed.

**Amendments to IAS 39** ***Novation of Derivatives and Continuation of Hedge Accounting***

This amendment to IAS 39 makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

**IFRIC 21** ***Levies***

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

*(Currency - In thousands of Turkish Lira)*

## 2. Application of new and revised international financial reporting standards (IFRSs) *(continued)*

c. New and revised IFRSs in issue but not yet effective

The following new and revised standards below have been applied in the current year. The standards have not affected the amounts reported in the financial statements for the current and previous years but may affect the accounting of the transactions that will be made in the future.

| | |
|---|---|
| IFRS 9 | *Financial Instruments* [5] |
| Amendments to IAS 19 | *Defined Benefit Plans: Employee Contributions* [1] |
| Annual Improvements to 2010-2012 Cycle | *IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 38 IAS 24* [1] |
| Annual Improvements to 2011-2013 Cycle | *IFRS 1, IFRS 3, IFRS 13, IAS 40* [1] |
| IFRS 14 | *Regulatory Deferral Accounts* [2] |
| Amendments to IFRS 11 | *Accounting for Acquisition of Interests in Joint operations*[2] |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* [2] |
| Amendments to IAS 16 and IAS 41 | *Agriculture: Bearer Plants* [2] |
| IFRS 15 | *Revenue from Contracts with Customers* [4] |
| Amendments to IAS 27 | *Equity Method in Separate Financial Statements* [2] |
| Amendments to IAS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2] |
| Annual Improvements to 2012-2014 Cycle | *IFRS 5, IFRS 7, IAS 9, IAS 34* [3] |
| Amendments to IAS 1 | *Disclosure Initiative* [2] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | *Investment Entities: Applying the Consolidation Exception*[2] |

[1] Effective for annual periods beginning on or after 1 July 2014.
[2] Effective for annual periods beginning on or after 1 January 2016.
[3] Effective for annual periods beginning on or after 1 July 2016.
[4] Effective for annual periods beginning on or after 1 January 2017.
[5] Effective for annual periods beginning on or after 1 January 2018.

### IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

### Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

**2. Application of new and revised international financial reporting standards (IFRSs)** *(continued)*

c. New and revised IFRSs in issue but not yet effective *(continued)*

**Annual Improvements to 2010-2012 Cycle**

**IFRS 2:** Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'

**IFRS 3:** Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

**IFRS 8:** Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

**IFRS 13:** Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

**IAS 16 and IAS 38:** Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

**IAS 24:** Clarify how payments to entities providing management services are to be disclosed.

**Annual Improvements to 2011-2013 Cycle**

**IFRS 1:** Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).

**IFRS 3:** Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

**IFRS 13:** Clarify the scope of the portfolio exception in paragraph 52.

**IAS 40:** Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

**IFRS 14 *Regulatory Deferral Accounts***

IFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

## 2. Application of new and revised international financial reporting standards (IFRSs) *(continued)*

c. New and revised IFRSs in issue but not yet effective *(continued)*

**Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint operations***

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

**Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation***

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

**Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants***

This amendment include "bearer plants" within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

**IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when the entity satisfies a performance obligation.

## 2. Application of new and revised international financial reporting standards (IFRSs) *(continued)*

c. New and revised IFRSs in issue but not yet effective *(continued)*

**Amendments to IAS 27 *Equity Method in Separate Financial Statements***

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

**Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

**Annual Improvements 2012-2014 Cycle**

**IFRS 5:** Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

**IFRS 7:** Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements

**IAS 9:** Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid

**IAS 34:** Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference

**Amendments to IAS 1 *Disclosure Initiative***

This amendment addresses perceived impediments to preparers exercising their judgement in presenting their financial reports.

**Amendments to IFRS 10, 11, IAS 28 *Investment Entities: Applying the Consolidation Exception***

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

The Company evaluates the effects of these standards on the financial statements.

*(Currency - In thousands of Turkish Lira)*

## 3. Significant accounting policies

### 3.1 Statement of compliance:

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

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Accounting Standards, Financial Reporting Standards and other regulations on accounting and reporting standards promulgated by the Banking Regulation and Supervision Agency ("BRSA").

The financial statements have been prepared from statutory financial statements of the Bank and presented in accordance with IFRS in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The accompanying financial statements as of 31 December 2014 are authorised for issue by the Board of Directors on 4 March 2015.

### 3.2 Basis of preparation:

The financial statements have been prepared on the historical cost basis except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 3.3 Accounting in hyperinflationary economies

The financial statements of the Bank for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

### 3.4 Foreign currency transactions

Transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign currency translation rates used by the Bank are as follows:

| | USD / TL(full) | EUR / TL(full) |
|---|---|---|
| 31 December 2014 | 2.3189 | 2.8207 |
| 31 December 2013 | 2.1343 | 2.9365 |

### 3.5 Interest income and interest expense

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

## 3. Significant accounting policies *(continued)*

### 3.5 Interest income and interest expense *(continued)*

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income statement include:

- the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis
- the interest income on held for trading investments and available for sale investments.

Interest income is suspended when loans are impaired and is excluded from interest income until received.

### 3.6 Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed.

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

### 3.7 Net trading income

Net trading income comprises gains less loss related to held for trading investments and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

### 3.8 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

### 3.9 Taxation and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

*Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

## 3. Significant accounting policies *(continued)*

### 3.9 Taxation and deferred income taxes *(continued)*

*Deferred tax (continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

*Investment Incentives*

The phase " ... only attributable to 2006, 2007 and 2008", which was included in the paragraph set out in Provisional Article 69 of Income Tax Law No: 193 is deleted upon the Constitutional Court's resolution no: 2009/144 and the related decision was published in the Official Gazette on 8 January 2010. Investment incentive application was revised based on Article 5 of Law No: 6009, which had been published in the Official Gazette No: 27659 on 1 August 2010. Under the revised law, the investment incentive amount which would be used as a discount in determining the tax basis should not exceed 25% of the related period's profit, only to the extent that it is applicable to profit for the related period, whereas corporate tax would be calculated based on the applicable tax rate over the remaining profit. The requirement stating that deductible investment incentive amount cannot exceed the 25% of annual earnings has been annulled upon the Constitutional Court's decision no:2010/93, K: 2012/9 issued on 9 February 2012. The full annulment decision has not been published in the Official Gazette as of the report date but the decision for the stay of execution is published in the Official Gazette on 18 February 2012. As of 31 December 2014, there is no investment incentive amount that is planned to be deducted by the Bank from its corporate income in the future and therefore there is no deferred tax asset recognized in the Bank's financial statements related to the investment incentive (31 December 2013: None).

**3. Significant accounting policies** *(continued)*

## 3.10 Financial assets and liabilities

Financial Assets

All financial assets are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value and recognized or derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

*Financial assets at FVTPL*

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated under this category upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

## 3. Significant accounting policies *(continued)*

### 3.10 Financial assets and liabilities *(continued)*

Financial Assets *(continued)*

*Available for sale financial assets*

Quoted equity investments and quoted certain debt securities held by the Bank that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets are stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognized in profit and loss when the Bank has the right to receive any payment.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the prevailing exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

*Due from banks and loans and advances to customers*

Due from banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an 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 and presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a due from banks, and the underlying asset is not recognised in the Bank's financial statements.

Due from banks and loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

## 3. Significant accounting policies *(continued)*

### 3.10 Financial assets and liabilities *(continued)*

Financial Assets *(continued)*

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of financial asset or financial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. That loss event or events must also have an impact on the estimated future cash flows of the financial asset or group of financial assets. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by impairment loss directly for all financial assets with the exception of lease receivables where the carrying amount is reduced through the use of an allowance account. When a loan is uncollectible, it is written off against the allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Increase in fair value of available for sale financial assets subsequent to impairment is recognized in directly in equity.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of the assets approximates their fair value.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## 3. Significant accounting policies *(continued)*

### 3.10 Financial assets and liabilities *(continued)*

Financial Liabilities

Financial liabilities and equity instruments issued by the Bank 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 Bank after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

*Financial liabilities at fair value through profit or loss*

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

*Other financial liabilities*

Other financial liabilities, including funds borrowed, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis. The effective interest method is calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

*Deposits, funds borrowed and debt securities issued*

The Bank is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Bank's sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

*Derecognition of financial liabilities*

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

## 3. Significant accounting policies *(continued)*

### 3.10 Financial assets and liabilities *(continued)*

*Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 3.11 Property and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

### 3.12 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

## 3. Significant accounting policies *(continued)*

### 3.13 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 3.14 Investment properties

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Depreciation is provided on investment property on a straight line basis. The depreciation period for investment property is 50 years.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

### 3.15 Leases

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

**The Bank as lessee**

Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

## 3. Significant accounting policies *(continued)*

### 3.15 Leases *(continued)*

**The Bank as lessor**

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

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

### 3.16 Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 3.17 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

*(Currency - In thousands of Turkish Lira)*

## 3. Significant accounting policies *(continued)*

### 3.18 Fiduciary assets

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

### 3.19 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Bank operates in investment and corporate banking. Accordingly, the Bank invests with the funds provided by using the capital market instruments and provides consultancy services so as to provide efficient management and sound financial structure to business enterprises.

The Bank provides investment and operating loans to its commercial and personal customers and also provides service packages consisting of foreign trade operations, investment products, cash management, financial leasing, factoring, and other banking products.

Major financial statement items according to business lines:

| 2014 | Retail banking | Corporate banking | Investment banking | Other (*) | Total operations of the Bank |
|---|---|---|---|---|---|
| Operating income | 50 | 37,543 | 1,499 | 8 | 39,100 |
| Other expenses | - | (18,687) | - | (240) | (18,927) |
| Profit before income tax | 50 | 18,856 | 1,499 | (232) | 20,173 |
| Income tax income/expense | - | - | - | - | (4,306) |
| Profit from continued operations | 50 | 18,856 | 1,499 | (232) | 15,867 |
| Profit from discontinued operations | - | - | - | - | - |
| **Profit for the year** | **50** | **18,856** | **1,499** | **(232)** | **15,867** |
| | | | | | |
| **30 December 2014** | | | | | |
| Segment assets | 319 | 631,013 | - | 7,195 | 638,527 |
| Non-distributed Asset | - | - | - | - | - |
| **Total assets** | **319** | **631,013** | **-** | **7,195** | **638,527** |
| | | | | | |
| Segment liabilities | - | 536,633 | - | - | 536,633 |
| Shareholders' equity | - | - | - | 101,894 | 101,894 |
| **Total liabilities** | **-** | **536,633** | **-** | **101,894** | **638,527** |

*(Currency - In thousands of Turkish Lira)*

## 3. Significant accounting policies *(continued)*

### 3.19 Segment reporting *(continued)*

| 2013 | Retail banking | Corporate banking | Investment banking | Other (*) | Total operations of the Bank |
|---|---|---|---|---|---|
| Operating income | 47 | 13,743 | 2,183 | 1,731 | 17,704 |
| Other expenses | - | (17,388) | - | - | (17,388) |
| Profit before income tax | 47 | (3,645) | 2,183 | 1,731 | 316 |
| Income tax income/expense | - | - | - | - | 200 |
| Profit from continued operations | 47 | (3,645) | 2,183 | 1,731 | 516 |
| Profit from discontinued operations | - | - | - | - | - |
| **Profit for the year** | **47** | **(3,645)** | **2,183** | **1,731** | **516** |
| **30 December 2013** | | | | | |
| Segment assets | 319 | 429,318 | - | 8,999 | 438,636 |
| Non-distributed Asset | - | - | - | 271 | 271 |
| **Total assets** | **319** | **429,318** | **-** | **9,541** | **438,907** |
| Segment liabilities | - | 351,447 | - | - | 351,447 |
| Shareholders' equity | - | - | - | 87,460 | 87,460 |
| **Total liabilities** | **-** | **351,447** | **-** | **87,460** | **438,907** |

(*) Operating income in "Other" column is the interest income on receivable from the sale of Bank's property (flour factory), on 20 November 2011 at an amount of USD 11,354 Thousand which includes 6% of interest and which will be paid in 96 installments.

***Geographical concentration***

| | Assets | Liabilities | Non-cash loans | Capital expendi-tures | Net profit / (loss) |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Domestic | 631,973 | 630,398 | 308,225 | 488 | 15,867 |
| European Union countries | 361 | - | - | - | - |
| OECD countries | 5,146 | - | - | - | - |
| USA, Canada | 1,047 | - | - | - | - |
| Other countries | - | 8,129 | - | - | - |
| **Total** | **638,527** | **638,527** | **308,225** | **488** | **15,867** |
| **2013** | | | | | |
| Domestic | 433,457 | 416,867 | 375,445 | 580 | 516 |
| European Union countries | 535 | - | - | - | - |
| OECD countries | 23 | - | - | - | - |
| USA, Canada | 4,892 | - | - | - | - |
| Other countries | - | 22,040 | - | - | - |
| **Total** | **438,907** | **438,907** | **375,445** | **580** | **516** |

## 3. Significant accounting policies *(continued)*

### 3.20. Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 3.21.

### 3.21. Key sources of estimation uncertainty

*Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

*Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

***Critical accounting judgements in applying the Bank's accounting policies***

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

*Impairment of investment in equity securities*

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3.10.

*Valuation of financial instruments*

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.10.

*Financial asset and liability classification*

The Bank'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 and liabilities as "trading", the Bank has determined that it meets the description of held for trading investments and liabilities set out in accounting policy 3.10.
- In classifying financial assets as "available for sale", the bank has determined that it meets the description of available for sale investments set out in accounting policy 3.10 and note 7.

Details of the Bank's classification of financial assets and liabilities are given in note 25.

*(Currency - In thousands of Turkish Lira)*

## 4. Cash and cash equivalents

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Cash and balances with central banks | 638 | 3,565 |
| *- Cash on hand* | *187* | *114* |
| *- Balances with central banks* | *451* | *3,451* |
| Due from banks and financial institutions | 109,210 | 58,814 |
| Placements at money markets | 85,053 | 19,012 |
| **Cash and cash equivalents in the balance sheet** | **194,901** | **81,391** |

As at 31 December 2014 and 31 December 2013, the details of the balances with central banks and due from banks and financial institutions are as follows:

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | Amount | | Effective interest rate | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| Balances with Central Bank | 1 | 450 | - | - |
| Due from banks and financial institutions | 62,232 | 46,978 | 10.75% | - |
| Placements at money markets | 85,053 | - | 11.23% | - |
| **Total** | **147,286** | **47,428** | | |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Amount | | Effective interest rate | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| Balances with Central Bank | 33,082 | 69 | - | - |
| Due from banks and financial institutions | 57,111 | 1,703 | 9.00% | - |
| Placements at money markets | 19,012 | - | 6.72% | - |
| **Total** | **79,505** | **1,772** | | |

## 5. Reserve deposits at Central Bank

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Turkish Lira | 7,616 | - |
| Foreign currency | 9,875 | 6,013 |
| | **17,491** | **6,013** |

According to the regulations of Central Bank of the Republic of Turkey ("Central Bank"), banks are required to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

As of 31 December 2014, the compulsory rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 5% to 11.5% depending on the maturity of deposits (31 December 2013 – 5% - 11.5 %) and the compulsory rates for the foreign currency liabilities are within an interval from 6% to 13% depending on the maturity of deposits (31 December 2013 – 6% - 13%).

*(Currency - In thousands of Turkish Lira)*

## 6. Held for trading investments

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Debt instruments** | | |
| Turkish government bonds-TL denominated | 5,136 | 7,186 |
| **Total held for trading investments** | **5,136** | **7,186** |

Income and losses comprising the gains and losses related to and liabilities and realised and unrealised fair value changes are reflected in the income statement as net trading income / (loss).

## 7. Available for sale investments

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Amount | Effective interest rate | Amount | Effective interest rate |
| **Available-for-sale investments at fair value** | | | | |
| Debt instruments – TL denominated [(a)] | 33,363 | 17,00% | 56,797 | 9.96% |
| Equity instruments – listed [(b)] | 25,392 | | 25,776 | |
| **Total available-for-sale investments at fair value** | **58,755** | | **82,573** | |

(a) Available for sale debt instruments include government bonds denominated in TL amounting to TL 4,096 (31 December 2013: TL 51,718 ); mutual funds denominated in TL amounting to TL 5,006 (31 December 2013: TL None ) the remaining portion amounting to TL 24,261 (31 December 2013: TL 5,079 ) consists of private sector bonds.

(b) The Bank holds 15.97% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 31 December 2014 and the investment is accounted under available for sale investments, as the Bank has no significant influence on the Company. As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 23,016 is accounted under equity (31 December 2013: TL 23,398 ).

*(Currency - In thousands of Turkish Lira)*

## 8. Loans and advances to customers

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | Amount | | | |
| | TL | Foreign currency | Foreign currency indexed | Total |
| Finance lease receivables | 11,728 | 608 | - | 12,336 |
| Factoring receivables | - | - | - | - |
| Short-term loans | 127,548 | 22,936 | - | 150,484 |
| Medium and long-term loans | 144,240 | 37,010 | - | 181,250 |
| **Total performing loans** | **283,516** | **60,554** | **-** | **344,070** |
| Non-performing loans | 507 | 13,791 | - | 14,298 |
| Less: Reserve for possible loan losses | (342) | (1,570) | - | (1,912) |
| **Total loans, net** | **283,682** | **72,774** | **-** | **356,456** |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Amount | | | |
| | TL | Foreign currency | Foreign currency indexed | Total |
| Finance lease receivables | 15,512 | 2,082 | - | 17,594 |
| Factoring receivables | 4,027 | - | - | 4,027 |
| Short-term loans | 134,442 | 29,879 | - | 164,321 |
| Medium and long-term loans | 29,699 | 25,383 | - | 55,082 |
| **Total performing loans** | **183,680** | **57,344** | **-** | **241,024** |
| Non-performing loans | 556 | - | - | 556 |
| Less: Reserve for possible loan losses | (390) | - | - | (390) |
| **Total loans, net** | **183,846** | **57,344** | **-** | **241,190** |

Movements in non-performing loans:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Reserve at beginning of year | 390 | 255 |
| Provision for possible loan losses | 1,571 | 281 |
| Recoveries | (49) | (146) |
| Provision, net of recoveries | 1,522 | 135 |
| Amount written off | - | - |
| **Reserve at end of year** | **1,912** | **390** |

*(Currency - In thousands of Turkish Lira)*

**8. Loans and advances to customers** *(continued)*

Loans and advances to customers include the following finance lease receivables.

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Gross investment in finance leases, receivable: | | |
| Less than one year | 6,401 | 9,122 |
| Between one and five years | 8,998 | 13,542 |
| | **15,399** | **22,664** |
| Unearned future income on finance leases | (3,063) | (5,070) |
| **Net investment in finance leases** | **12,336** | **17,594** |
| The net investment in finance leases comprises: | | |
| Less than one year | 5,033 | 6,779 |
| Between one and four years | 7,303 | 10,815 |
| | **12,336** | **17,594** |

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

The receivables are secured by way of the underlying assets.

*(Currency - In thousands of Turkish Lira)*

## 9. Property and equipment

| | Office equipment | Furniture and fixtures | Other fixed assets | Total |
|---|---|---|---|---|
| **Cost value** | | | | |
| Balance at 1 January 2014 | 1,543 | 652 | 523 | 2,718 |
| Acquisitions | 125 | - | 68 | 193 |
| Disposals | - | - | - | - |
| **Balance at 31 December 2014** | **1,668** | **652** | **591** | **2,911** |
| **Accumulated Depreciation** | | | | |
| Balance at 1 January 2014 | (1,118) | (609) | (411) | (2,138) |
| Depreciation for the year | (248) | (6) | (31) | (285) |
| Disposals | - | - | - | - |
| **Balance at 31 December 2014** | **(1,366)** | **(615)** | **(442)** | **(2,423)** |
| **Cost value** | | | | |
| Balance at 1 January 2013 | 1,502 | 652 | 498 | 2,652 |
| Acquisitions | 47 | - | 25 | 72 |
| Disposals | (6) | - | - | (6) |
| **Balance at 31 December 2013** | **1,543** | **652** | **523** | **2,718** |
| **Accumulated Depreciation** | | | | |
| Balance at 1 January 2013 | (871) | (595) | (388) | (1,854) |
| Depreciation for the year | (250) | (14) | (23) | (287) |
| Disposals | 3 | - | - | 3 |
| **Balance at 31 December 2013** | **(1,118)** | **(609)** | **(411)** | **(2,138)** |
| **Carrying amounts** | | | | |
| Balance at 31 December 2013 | 425 | 43 | 112 | 580 |
| Balance at 31 December 2014 | 302 | 37 | 149 | 488 |

As of 31 December 2014 tangible assets were insured to the extent to TL 3,022 Thousand in total.

The estimated useful lives are as follows:

| | |
|---|---|
| Motor vehicles | 5 - 7 years |
| Office equipment, furniture and fixtures | 5 - 15 years |
| Leased assets | shorter of 5 - 10 years and the lease term |

*(Currency - In thousands of Turkish Lira)*

## 10. Intangible assets

| | Software | Total |
|---|---|---|
| **Cost** | | |
| Balance at 1 January 2014 | 3,884 | 3,884 |
| Additions | 154 | 154 |
| **Balance at 31 December 2014** | **4,038** | **4,038** |
| **Amortization and impairment** | | |
| Balance at 1 January 2014 | (2,794) | (2,794) |
| Amortization charge for the year | (223) | (223) |
| **Balance at 31 December 2014** | **(3,017)** | **(3,017)** |
| **Cost** | | |
| Balance at 1 January 2013 | 3,331 | 3,331 |
| Additions | 553 | 553 |
| **Balance at 31 December 2013** | **3,884** | **3,884** |
| **Amortization and impairment** | | |
| Balance at 1 January 2013 | (2,518) | (2,518) |
| Amortization charge for the year | (276) | (276) |
| **Balance at 31 December 2013** | **(2,794)** | **(2,794)** |
| **Carrying amounts** | | |
| Balance at 31 December 2013 | 1,090 | 1,090 |
| Balance at 31 December 2014 | 1,021 | 1,021 |

*(Currency - In thousands of Turkish Lira)*

## 11. Other assets

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Receivables from Nurol Holding | 483 | 144 |
| Receivables from disposal of property (*) | - | 15,731 |
| Assets held for sale | 1,371 | 1,371 |
| Others | 2,425 | 1,638 |
| | **4,279** | **18,884** |

(*) The Bank sold its investment property, that comprise the building (flour factory) purchased from a loan customer on 7 October 2011 for USD 11,354 thousand which includes 6% of interest and which will be paid in 96 installments amounting to USD 118 thousand each. As of 31 December 2014 the amortised carrying value of the receivable from this disposal amounts to TL 13,791 (31 December 2013: TL 15,731). The receivable was presented in Other Assets as of 31 December 2013; but it is classified as non-performing loans, under Loans and Advances to Customers as of 31 December 2014, as a result of the collection performance in the current year. 1,571 TL of provision is provided for this receivable as of the balance sheet date.

## 12. Funds borrowed

| | 31 December 2014 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | TL | Foreign currency | Total | TL | Foreign currency | Total |
| Funds borrowed | 32,673 | 35,154 | 67,827 | 27,356 | 87,328 | 114,684 |
| Obligations under repurchase agreements | 51,505 | - | 51,505 | 123,442 | - | 123,442 |
| | **84,178** | **35,154** | **119,332** | **150,798** | **87,328** | **238,126** |

The effective interest rate for funds borrowed denominated in USD is 2.00% (2013 –3.22%), in EUR is 2.93% (2013 – 3.2%) and in TL is 11.23% (2013 – 7.9%). As at 31 December 2014 and 31 December 2013, funds borrowed have fixed interest rates.

As at 31 December 2014 and 31 December 2013, funds borrowed are unsecured.

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

*(Currency - In thousands of Turkish Lira)*

## 13. Debt securities issued

The Bank has issued floating rate debt securities amounting to TL 100,000,000 at 24 January 2013 with 728 days maturity and three-month period interest payment. Bank reclaimed securities worth TL 1,330,000 TL in nominal value that was issued, as of balance sheet date. The Bank has also issued bills on 29 April 2014 with nominal value of TL 30,000,000, interest rate of 5.27% and term of 179 days; bonds on 29 April 2014 with nominal value of TL 30,000,000, interest rate of 3.06% and term of 540 days, with variable interest, coupon payments as every three months, bonds on 2 June 2014 with nominal value of TL 40,000,000, interest rate of 4.72% and term of 179 days and bonds on 08 July 2014 with nominal value of TL 40,000,000, interest rate of 4.49% through and term of 178 days sales to the qualified investors. As at 31 December 2014, debt securities are as follows:

| | 31 December 2014 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | TL | Foreign currency | Total | TL | Foreign Currency | Total |
| Bonds | 204,629 | - | 204,629 | 102,308 | - | 102,308 |
| | **204,629** | **-** | **204,629** | **102,308** | **-** | **102,308** |

## 14. Other liabilities

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Current accounts of loan customers | 192,074 | 1,578 |
| Taxes and funds payable | 3,356 | 985 |
| Others | 5,039 | 2,174 |
| | **200,469** | **4,737** |

## 15. Provisions

| | 30 December 2014 | 31 December 2013 |
|---|---|---|
| Employee termination benefits | 565 | 431 |
| Bonus accrual | 247 | - |
| Unused vacation accrual | 404 | 263 |
| Provision for non -cash loans | 963 | 1,103 |
| Provision for lawsuits | 380 | 398 |
| Other | 415 | 400 |
| | **2,974** | **2,595** |

*(Currency - In thousands of Turkish Lira)*

## 15. Provisions(cont'd)

The movement in vacation pay liability is as follows:

| | 2014 | 2013 |
|---|---|---|
| At 1 January | 263 | 368 |
| Provision (reversal) / provided | 141 | (105) |
| **At 31 December** | **404** | **263** |

The movement in provision for bonus accrual is as follows:

| | 2014 | 2013 |
|---|---|---|
| At 1 January | - | 300 |
| Provision provided | 247 | - |
| Bonus paid | - | (300) |
| **At 31 December** | **247** | **-** |

The movement in provision for employee termination benefits is as follows:

| | 2014 | 2013 |
|---|---|---|
| At 1 January | 431 | 684 |
| Service cost | 187 | 380 |
| Interest cost | 10 | 17 |
| Benefits paid | (63) | (292) |
| Provision reversal | - | (271) |
| Actuieryal gain /(loss) | - | (87) |
| **At 31 December** | **565** | **431** |

*(Currency - In thousands of Turkish Lira)*

## 15. Provisions *(continued)*

### Employee termination benefits

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, is called up for military service, dies or achieves the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 3.438,22 for each period of service at 31 December 2014 (2013: TL 3.254,44)

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Company is calculated over TL 3.541,37 that is effective commencing on 1 January 2015 (1 January 2014: TL 3.438,22). The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2014, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The Bank used 2.86% discount rate, 5.00% inflation rate and 8.00% interest rate for provision of severance payment (31 December 2013 – discount rate: 3.78%, inflation rate: 6.21%, interest rate: 10.22%).

## 16. Taxation

The Bank is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

### Income tax recognised in the income statement

The components of income tax expense as stated below:

| | 2014 | 2013 |
|---|---|---|
| **Current tax** | | |
| Current income tax | (4,346) | - |
| **Deferred income / (expense) tax** | | |
| Relating to origination and reversal of temporary differences | 40 | 200 |
| **Income tax expense reported in the income statement** | **(4,306)** | **200** |

*(Currency - In thousands of Turkish Lira)*

## 16. Taxation *(continued)*

### Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31 December 2014 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Profit before income tax | 20,173 | 316 |
| Income tax using the domestic corporate tax rate 20% | (4,035) | (63) |
| Disallowable expenses | (64) | (80) |
| Other | (207) | 343 |
| **Total income tax expense in the profit or loss** | **(4,306)** | **200** |

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

| | 2014 | 2013 |
|---|---|---|
| Deferred tax assets / (liability), net at 1 January | (640) | (2,115) |
| Prior year adjustment | - | 49 |
| Deferred tax recognised in the profit or loss | 40 | 200 |
| Deferred income tax recognised in other comprehensive income | (57) | 1,226 |
| **Deferred tax assets/(liabilities), net at end of December** | **(657)** | **(640)** |

### Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | 31 December 2014 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** | **Assets** | **Liabilities** | **Net** |
| Liability for employee benefits | 194 | - | 194 | 156 | - | 156 |
| Valuation of available for sale financial assets | - | (1,155) | (1,155) | - | (1,101) | (1,101) |
| Other | - | 304 | 304 | - | 305 | 305 |
| | **194** | **(851)** | **(657)** | **156** | **(796)** | **(640)** |

*(Currency - In thousands of Turkish Lira)*

## 17. Commitments and contingencies

In the normal course of business, the Bank enters into a number of contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Bank. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As at 31 December 2014; commitments and contingencies comprised the following:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Letters of guarantee | 300,991 | 368,319 |
| Letters of credit | 5,084 | 6,126 |
| Bank acceptance | 2,150 | - |
| Other commitments | 236 | 220 |
| **Total** | **308,461** | **375,665** |

As at 31 December 2014; derivative financial instruments are comprised the following. This table shows the fair values of derivative financial liabilities.

| | 31 December 2014 | | 31 December 2013 | |
|---|---|---|---|---|
| | Fair value | Notional amount in Turkish Lira equivalent | Fair value | Notional amount in Turkish Lira equivalent |
| Derivative financial liabilities - held for trading | 2,211 | 763,140 | 79 | 106,421 |
| | **2,211** | **763,140** | **79** | **106,421** |

*(Currency - In thousands of Turkish Lira)*

## 18 Share capital and reserves

### Share capital

As at 31 December 2014 and 31 December 2013, the composition of shareholders and their respective percentage of ownership are summarised as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Nurol Holding A.Ş. | 35,171 | 78 | 35,169 | 78 |
| Nurol İnşaat ve Tic. A.Ş. | 7,182 | 16 | 7,180 | 16 |
| Nurol Otelcilik ve Turizm İşletmeciliği A.Ş. | 367 | 1 | 395 | 1 |
| Others | 2.250 | 5 | 2,256 | 5 |
| **Total** | **45,000** | | **45,000** | |

As at 31 December 2014 and 31 December 2013, the authorised share capital comprised of 45,000 ordinary shares having a par value of TL full 1,000. All issued shares are paid.

In accordance with the resolution of Board of Directors dated 4 March 2008, adjustment to share capital was offset against the accumulated loss.

### Legal reserves

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

As at 31 December 2014, the Bank's legal reserves amounted to TL 1,151 Thousand (31 December 2013 – TL 1,151 Thousand).

### Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale available for sale investments until the investment is derecognised or impaired.

Movement in available-for-sale reserve is as follows:

| | |
|---|---|
| **At 31 December 2013** | **21,950** |
| Change in fair value of available-for-sale financial assets (net of tax) | (67) |
| **At 31 December 2014** | **21,883** |

*(Currency - In thousands of Turkish Lira)*

## 19. Net interest income

| | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 51,962 | 25,801 |
| Deposits with banks and other financial institutions | 1,940 | 871 |
| Held for trading and available for sale investments | 3,348 | 3,251 |
| Financial leases | 2,684 | 1,591 |
| Other | 1,191 | 986 |
| | **61,125** | **32,500** |
| **Interest expense** | | |
| Funds borrowed | 3,425 | 4,619 |
| Debt securities issued | 19,747 | 10,341 |
| Interbank funds borrowed | 4,843 | 3,306 |
| | **28,015** | **18,266** |
| **Net interest income** | **33,110** | **14,234** |

## 20. Net fee and commission income

| | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|
| **Fee and commission income** | | |
| Non-cash loans | 4,546 | 2,655 |
| Other | 7,164 | 2,312 |
| **Total fee and commission income** | **11,710** | **4,967** |
| **Fee and commission expense** | | |
| Non-cash loans | 678 | 720 |
| Other | 1,333 | 1,060 |
| **Total fee and commission expense** | **2,011** | **1,780** |
| **Net fee and commission income** | **9,699** | **3,187** |

## 21. Net trading income / (loss)

| | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|
| Gain / (loss) on foreign exchange rate fluctuations | (11,932) | 3,475 |
| Gain / (loss) from securities | 1,386 | (1,914) |
| Gain / (loss) on derivatives | 5,092 | (1,935) |
| **Total** | **(5,454)** | **(374)** |

*(Currency - In thousands of Turkish Lira)*

## 22. Other operating income

| | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|
| Communication income | 166 | 59 |
| Other | 1,339 | 598 |
| **Total** | **1,505** | **657** |

## 23. Personnel expenses

| | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|
| Wages and salaries | 6,536 | 7,101 |
| Compulsory social security obligations | 507 | 663 |
| Other fringe benefits | - | 278 |
| Other benefits | 894 | 878 |
| **Total** | **7,937** | **8,920** |

## 24. Administrative expenses

| | 1 January-31 December 2014 | 1 January-31 December 2013 |
|---|---|---|
| Nurol Holding recharges | 3,119 | 2,318 |
| Rent expenses | 871 | 846 |
| Telecommunication expenses | 591 | 578 |
| Audit and advisory expenses | 400 | 321 |
| Notary expenses | 754 | 659 |
| Computer expenses | 711 | 733 |
| Maintenance expenses | 135 | 197 |
| Transportation expenses | 144 | 216 |
| Taxes and duties expenses | 293 | 250 |
| Office supplies | 16 | 8 |
| Hosting expenses | 95 | 60 |
| Advertising expenses | 19 | 24 |
| Other various administrative expenses | 873 | 1,071 |
| **Total** | **8,021** | **7,281** |

## 25. Financial risk management objectives and policies

### a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

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

*Risk management framework*

The Bank's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk. The Bank's risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Bank. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### b) Credit risk

Credit risk represents the risk arising from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally. Credit Risk Management Committee is responsible for managing credit risk at the Bank.

Total amount of credits granted to a group is subject to certain credit risk limits. According to the decision taken by the Board of Directors, the maximum amount of the loan to be granted to a group (cash and non-cash) is limited with the calculation of certain percentages of the shareholders' equity based on the rating of the group. Furthermore, concentration risk is monitored on monthly basis in terms of industry, rating by risk group and customer.

The credibility of the debtors of the Bank is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Bank's procedures. The Bank analyses the credibility of the loans within the framework of its loan policies and obtains collaterals for loans and other receivables.

The restructured and rescheduled loans are evaluated in the Bank's current rating system besides the follow up method determined in the related regulation.

*Credit risk by risk groups*

| | Individual | Corporate | Leasing | Factoring | Total |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| Performing loans | 315 | 331,419 | 12,336 | - | 344,070 |
| Loans under close monitoring | - | - | - | - | - |
| Non-performing loans | 2 | 14,296 | - | - | 14,298 |
| **Gross** | **317** | **345,715** | **12,336** | **-** | **358,368** |
| Reserve for possible loan losses | (2) | (1,910) | - | - | (1,912) |
| **Total** | **315** | **343,805** | **12,336** | **-** | **356,456** |
| **31 December 2013** | | | | | |
| Performing loans | 357 | 219,046 | 17,594 | 4,027 | 241,024 |
| Loans under close monitoring | - | - | - | - | - |
| Non-performing loans | 2 | 554 | - | - | 556 |
| **Gross** | **359** | **219,600** | **17,594** | **4,027** | **241,580** |
| Reserve for possible loan losses | (2) | (388) | - | - | (390) |
| **Total** | **357** | **219,212** | **17,594** | **4,027** | **241,190** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### b) Credit risk *(continued)*

*Exposure to credit risk*

| | | Due from banks | | Loans and advances to customers | |
|---|---|---|---|---|---|
| **At 31 December** | *Notes* | **2014** | **2013** | **2014** | **2013** |
| **Carrying amount** | | **194,263** | **77,826** | | **241,190** |
| Individually impaired | | | | | |
| - Non-performing financial assets | | - | - | 14,298 | 556 |
| **Gross amount** | | **-** | **-** | **14,298** | **556** |
| Reserve for possible loan losses | *8* | - | - | (1,912) | (390) |
| **Carrying amount** | | **-** | **-** | **12,386** | **166** |
| Past due but not impaired | | - | - | - | - |
| **Carrying amount** | | **-** | **-** | **-** | **-** |
| Neither past due nor impaired | | 194,263 | 77,826 | 344,070 | 241,024 |
| **Carrying amount** | | **194,263** | **77,826** | **344,070** | **241,024** |
| Includes account with renegotiated terms | | - | - | - | - |
| **Carrying amount** | | **-** | **-** | **-** | **-** |
| **Carrying amount (amortised cost)** | *4, 8* | **194,263** | **77,826** | **356,456** | **241,190** |

*Impaired loans and advances*

Individually impaired loans are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan.

*Past due but not impaired loans*

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

## 25. Financial risk management objectives and policies *(continued)*

### b) Credit risk *(continued)*

*Exposure to credit risk (continued)*

*Reserve for possible loan losses*

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

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio.

*Write-off policy*

The Bank writes off a loan balance and any related allowances for impairment losses, when Bank has a position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not sufficient to pay back the entire exposure.

*Collateral policy*

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### b) Credit risk *(continued)*

*Collateral policy (continued)*

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

| **Cash loans** | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Secured cash loans | 236,678 | 131,053 |
| *Secured by cash collateral* | - | - |
| *Personal guarantees* | *173,679* | *88,145* |
| *Secured by mortgages* | *8,744* | *39* |
| *Secured by customer cheques & acts* | *16,919* | *21,248* |
| *Leasing* | *12,336* | *17,594* |
| *Factoring* | - | *4,000* |
| Non-secured cash loans | 104,703 | 107,837 |
| Accrued interest income on loans | 2,689 | 2,134 |
| **Total performing cash loans** | **344,070** | **241,024** |

| **Non-cash loans[1]** | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Secured non-cash loans | 225,667 | 228,948 |
| *Personal guarantees* | *225,415* | 228,685 |
| *Secured by cash collateral* | 252 | 263 |
| *Secured by customer cheques & acts* | - | - |
| Non-secured non cash loans | 75,324 | 140,371 |
| **Total non-cash loans** | **300,991** | **369,319** |

(1) Other commitments, letters of credit and bank acceptances are not included.

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### b) Credit risk *(continued)*

*Segment concentration*

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from due from banks and loans and advances to customers at the reporting date is shown below:

| | Due from banks | | Loans and advances to customers | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Banks | 194,263 | 77,826 | - | - |
| Manufacturing | | - | 67,168 | 23,601 |
| *Mining* | - | - | - | - |
| *Production* | - | - | *67,168* | *23,601* |
| *Natural resources* | - | - | - | - |
| Construction | - | - | 51,883 | 36,646 |
| Services | - | - | 169,723 | 149,685 |
| *Wholesale and retail trade* | - | - | *126,274* | *58,124* |
| *Hotel, food and beverage services* | - | - | *10,756* | *12,636* |
| *Financial institutions* | - | - | *3,198* | *11,595* |
| *Educational services* | - | - | - | - |
| *Communication expenses* | - | - | *4,185* | *3,822* |
| *Health and social services* | - | | *1,345* | *194* |
| *Renting Service* | - | - | *23,965* | *63,314* |
| Other | - | | 55,296 | 31,092 |
| Non-performing loans, net | - | - | 12,386 | 166 |
| **Total** | **194,263** | **77,826** | **356,456** | **241,190** |

*Concentration risk by location*

| | | Due from banks | | Loans and advances to customers | |
|---|---|---|---|---|---|
| | *Notes* | 2014 | 2013 | 2014 | 2013 |
| Turkey | | 187,709 | 76,198 | 274,589 | 219,591 |
| Europe | | 361 | 535 | - | - |
| Other | | 6,193 | 1,093 | 81,867 | 21,599 |
| | *4, 8* | **194,263** | **77,826** | **356,456** | **241,190** |

*Held for trading investments*

At 31 December 2014, the Bank has held for trading investments amounting to TL 5,136 Thousand (31 December 2013– TL 7,186 Thousand). An analysis of the credit quality of the maximum credit exposure is as follows:

| | *Note* | 2014 | 2013 |
|---|---|---|---|
| Government bonds and treasury bills | *6* | 5,136 | 7,168 |
| **Fair value and carrying amount** | | **5,136** | **7,168** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

*Management of liquidity risk*

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

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007. The Bank's liquidity ratios in 2014 and 2013 are as follows:

| | First maturity bracket (weekly) | | Second maturity bracket (monthly) | |
|---|---|---|---|---|
| | Foreign currency (%) | Total (%) | Foreign currency (%) | Total (%) |
| 2014 average | 159 | 210 | 99 | 129 |
| 2013 average | 204 | 203 | 151 | 157 |

As at 31 December 2014 and 31 December 2013, the following table provides the contractual maturities of the Bank's financial liabilities.

| | 31 December 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | 6 month or less | 6 to 12 months | 1 to 2 years | 2 to 5 years | More than 5 years |
| Funds borrowed | 119,332 | 130,697 | 130,686 | - | - | 11 | - |
| Debt securities issued | 204,629 | 206,897 | 176,616 | 30,281 | - | - | - |
| | **323,961** | **337,594** | **307,302** | **30,281** | **-** | **11** | **-** |

| | 31 December 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | 6 month or less | 6 to 12 months | 1 to 2 years | 2 to 5 years | More than 5 years |
| Funds borrowed | 238,126 | 242,989 | 239,598 | 3,379 | - | 12 | - |
| Debt securities issued | 102,308 | 111,748 | 5,874 | 5,874 | 100,000 | - | - |
| | **340,434** | **354,737** | **245,472** | **9,253** | **100,000** | **12** | **-** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### c) Liquidity risk *(continued)*

*Exposure to liquidity risk*

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA.

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

| 31 December 2014 | Demand | Less than one month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Unidentified maturity | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 8,076 | 186,825 | - | - | - | - | - | 194,901 |
| Reserve deposits at Central Bank | - | 17,491 | - | - | - | - | - | 17,491 |
| Held for trading investments | - | - | 5,136 | - | - | - | - | 5,136 |
| Available for sale investments | - | 2,063 | 238 | 5,293 | 20,763 | - | 30,398 | 58,755 |
| Loans and advances to customers | - | 59,528 | 21,909 | 73,695 | 174,493 | 18,760 | 8,071 | 356,456 |
| Other assets | 1,371 | 2,510 | - | - | - | - | 1,907 | 5,788 |
| **Total assets** | **9,447** | **268,417** | **27,283** | **78,988** | **195,256** | **18,760** | **40,376** | **638,527** |
| Funds borrowed | - | 100,951 | 18,381 | - | - | - | - | 119,332 |
| Debt securities issued | - | 135,932 | 38,661 | 30,036 | - | - | - | 204,629 |
| Derivative financial instruments | - | 2,211 | - | - | - | - | - | 2,211 |
| Other liabilities | 18,303 | 107,806 | 75,696 | 1,893 | 2,513 | - | 106,144 | 312,355 |
| **Total liabilities** | **18,303** | **346,900** | **132,738** | **31,929** | **2,513** | **-** | **106,144** | **638,527** |
| **Liquidity gap** | **(8,856)** | **(78,483)** | **(105,455)** | **47,059** | **192,743** | **18,760** | **(65,768)** | **-** |

| 31 December 2013 | Demand | Less than one month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Unidentified maturity | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 5,365 | 76,026 | - | - | - | - | - | 81,391 |
| Reserve deposits at Central Bank | - | 6,013 | - | - | - | - | - | 6,013 |
| Held for trading investments | - | 161 | - | 7,025 | - | - | - | 7,186 |
| Available for sale investments | - | - | 2,061 | 46,742 | 7,994 | - | 25,776 | 82,573 |
| Loans and advances to customers | - | 35,816 | 55,124 | 82,700 | 63,557 | 3,827 | 166 | 241,190 |
| Other assets | - | 179 | 359 | 1,614 | 12,402 | 1,178 | 4,822 | 20,554 |
| **Total assets** | **5,365** | **118,195** | **57,544** | **138,081** | **83,953** | **5,005** | **30,764** | **438,907** |
| Funds borrowed | - | 189,034 | 24,034 | 25,047 | - | 11 | - | 238,126 |
| Debt securities issued | - | - | - | - | 102,308 | - | - | 102,308 |
| Other liabilities | 1,593 | 2,533 | 1,251 | - | - | - | 93,017 | 98,394 |
| Derivative financial instruments | - | 79 | - | - | - | - | - | 79 |
| **Total liabilities** | **1,593** | **191,646** | **25,285** | **25,047** | **102,308** | **11** | **93,017** | **438,907** |
| **Liquidity gap** | **3,772** | **(73,451)** | **32,259** | **113,034** | **(18,355)** | **4,994** | **(62,253)** | **-** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### d) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA. The Bank's value at market risks as at 31 December 2014 and 31 December 2013 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012, are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Average** | **Highest** | **Lowest** | **Average** | **Highest** | **Lowest** |
| Interest rate risk | 222 | 614 | - | 34 | 161 | - |
| Equity price risk | - | - | - | - | - | - |
| Currency risk | 563 | 1,289 | 126 | 370 | 819 | 124 |
| Counter party risk | 343 | 760 | 2 | 9 | 26 | - |
| **Total value-at-risk** | **1,128** | **2,663** | **128** | **413** | **1,006** | **124** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### d) Market risk *(continued)*

*Currency risk*

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

Position limit of the Bank related with currency risk is determined according to Foreign Currency Net Position Standard ratio determined by BRSA.

The concentrations of assets, liabilities and off balance sheet items are as follows:

| | USD | Euro | JPY | Others | Total |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 39,808 | 7.533 | - | 141 | 47,482 |
| Reserve deposits at Central Bank | 9,875 | - | - | - | 9,875 |
| Loans and advances to customers | 27,123 | 33,431 | - | - | 60,554 |
| Available for sale investments | - | - | - | - | - |
| Other assets | - | - | | - | - |
| **Total assets** | **76,806** | **40,964** | **-** | **141** | **117,911** |
| **Liabilities** | | | | | |
| Funds borrowed | 26,884 | 8,270 | - | - | 35,154 |
| Other liabilities | 180,585 | 30 | - | 111 | 180,726 |
| **Total liabilities** | **207,469** | **8,300** | **-** | **111** | **215,880** |
| **Gross exposure** | **(130,663)** | **32,664** | **-** | **30** | **(97,969)** |
| **Off-balance sheet position** | | | | | |
| Net notional amount of derivatives | 131,742 | (32,765) | - | - | 98,977 |
| **Net exposure** | **1,079** | **(101)** | **-** | **30** | **1,008** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### d) Market risk *(continued)*

*Currency risk (continued)*

| | USD | Euro | JPY | Others | Total |
|---|---|---|---|---|---|
| **2013** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 1,194 | 394 | 24 | 211 | 1,823 |
| Reserve deposits at Central Bank | 6,013 | - | - | - | 6,013 |
| Loans and advances to customers | 23,041 | 34,303 | - | - | 57,344 |
| Available for sale investments | - | - | - | - | - |
| Other assets | 9,773 | - | - | - | 9,773 |
| **Total assets** | **40,021** | **34,697** | **24** | **211** | **74,953** |
| **Liabilities** | | | | | |
| Funds borrowed | 52,018 | 35,310 | - | - | 87,328 |
| Other liabilities | 375 | 347 | - | 24 | 746 |
| **Total liabilities** | **52,393** | **35,657** | **-** | **24** | **88,074** |
| **Gross exposure** | **(12,372)** | **(960)** | **24** | **187** | **(13,121)** |
| **Off-balance sheet position** | | | | | |
| Net notional amount of derivatives | 24,114 | (9,099) | - | - | 15,015 |
| **Net exposure** | **11,742** | **(10,059)** | **24** | **187** | **1,894** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### d) Market risk *(continued)*

*Currency risk (continued)*

*Sensitivity analysis*

A 10 percent weakening of TL against the foreign currencies at 31 December 2014 and 31 December 2013 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

| 2014 | Equity | Profit or loss |
|---|---|---|
| EUR | (10) | (10) |
| USD | 108 | 108 |
| Other currencies | 3 | 3 |
| | **101** | **101** |

| 2013 | Equity | Profit or loss |
|---|---|---|
| EUR | (1,006) | (1,006) |
| USD | 1,174 | 1,174 |
| Other currencies | 21 | 21 |
| | **189** | **189** |

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2014 and 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

*Interest rate risk*

Interest rate risk that would arise from the changes in interest rates depending on the Bank's position is managed by the Asset and Liability Committee of the Bank.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

The Management of the Bank follows the interest rates in the market on a daily basis and revises interest rates of the Bank when necessary.

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### d) Market risk *(continued)*

*Interest rate risk (continued)*

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2014 and 31 December 2013:

| | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | More than 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2014** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 186,825 | - | - | - | - | 8,076 | 194,901 |
| Reserve deposits at Central Bank | - | - | - | - | - | 17,491 | 17,491 |
| Held for trading investments | - | 5,136 | - | - | - | - | 5,136 |
| Available for sale investments | 3,693 | 18,111 | 2,518 | 4,035 | - | 30,398 | 58,755 |
| Loans and advances to customers | 60,063 | 22,842 | 76,651 | 170,069 | 18,760 | 8,071 | 356,456 |
| Other | - | - | - | - | - | 5,788 | 5,788 |
| **Total assets** | **250,581** | **46,089** | **79,169** | **174,104** | **18,760** | **69,824** | **638,527** |
| **Liabilities** | | | | | | | |
| Funds borrowed | 100,951 | 18,381 | - | - | - | - | 119,332 |
| Debt securities issued | 135,932 | 38,661 | 30,036 | - | - | - | 204,629 |
| Current account of loans customers(1) | - | - | - | - | - | 13,133 | 13,133 |
| Other | 110,017 | 75,696 | 1,893 | 2,513 | - | 111,314 | 301,433 |
| **Total liabilities** | **346,900** | **132,738** | **31,929** | **2,513** | **-** | **124,447** | **638,527** |
| On balance sheet interest sensitivity gap | (96,319) | (86,649) | 47,240 | 171,591 | 18,760 | (54,623) | - |
| Off balance sheet interest sensitivity gap | - | - | - | - | - | - | - |
| **Total interest sensitivity gap** | **(96,319)** | **(86,649)** | **47,240** | **171,591** | **18,760** | **(54,623)** | **-** |

(1) included in other liabilities

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### d) Market risk *(continued)*

*Interest rate risk (continued)*

| | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | More than 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2013** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 76,026 | - | - | - | - | 5,365 | 81,391 |
| Reserve deposits at Central Bank | - | - | - | - | - | 6,013 | 6,013 |
| Held for trading investments | - | 161 | 7,025 | - | - | - | 7,186 |
| Available for sale investments | - | 2,061 | 46,742 | 7,994 | - | 25,776 | 82,573 |
| Loans and advances to customers | 35,825 | 5 | 137,810 | 63,557 | 3,827 | 166 | 241,190 |
| Other | 179 | 359 | 1,614 | 12,402 | 1,178 | 4,822 | 20,554 |
| **Total assets** | **112,030** | **2,586** | **193,191** | **83,953** | **5,005** | **42,142** | **438,907** |
| **Liabilities** | | | | | | | |
| Funds borrowed | 189,034 | 24,034 | 25,047 | - | 11 | - | 238,126 |
| Debt securities issued | 102,308 | - | - | - | - | - | 102,308 |
| Current account of loans customers[1] | - | - | - | - | - | 1,593 | 1,593 |
| Other | 2,612 | 1,251 | - | - | - | 93,017 | 96,880 |
| **Total liabilities** | **293,954** | **25,285** | **25,047** | **-** | **11** | **94,610** | **438,907** |
| On balance sheet interest sensitivity gap | (181,924) | (22,699) | 168,144 | 83,953 | 4,994 | (52,468) | - |
| Off balance sheet interest sensitivity gap | - | - | - | - | - | - | - |
| **Total interest sensitivity gap** | **(181,924)** | **(22,699)** | **168,144** | **83,953** | **4,994** | **(52,468)** | **-** |

[1] Included in other liabilities.

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### d) Market risk *(continued)*

***Exposure to interest rate risk sensitivity***

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income based on the floating rate non-trading financial assets and financial liabilities and trading financial assets and liabilities held at 31 December 2014 and 31 December 2013. The sensitivity of equity is calculated by revaluing available for sale financial assets at 31 December 2014 and 31 December 2013 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| **2014** | **Profit or loss** | | **Equity** | |
|---|---|---|---|---|
| | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| Available for sale financial assets | - | - | (2,073) | 2,073 |
| Floating rate financial assets | - | - | - | - |
| **Total, net** | **-** | **-** | **(2,073)** | **2,073** |

| **2013** | **Profit or loss** | | **Equity** | |
|---|---|---|---|---|
| | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| Available for sale financial assets | - | - | (50) | 50 |
| Floating rate financial assets | - | - | - | - |
| **Total, net** | **-** | **-** | **(50)** | **50** |

*(Currency - In thousands of Turkish Lira)*

**25. Financial risk management objectives and policies** *(continued)*

**d) Market risk** *(continued)*

*Interest rate risk (continued)*

*Summary of average interest rates*

As at 31 December 2014 and 31 December 2013, the summary of average interest rates for different assets and liabilities are as follows:

| | 31 December 2014 | | | 31 December2013 | | |
|---|---|---|---|---|---|---|
| | Euro | USD | TL | Euro | USD | TL |
| **Assets** | | | | | | |
| Cash and balances with the Central Bank | - | - | - | - | - | - |
| Due from banks | 0.20 | 0.30 | 10.75 | 0.33 | 0.33 | 8.05 |
| Held for trading investments | - | - | - | - | - | - |
| Placementsat money markets | - | - | 11.23 | - | - | 7.75 |
| Available for sale financial assets | - | - | 17.00 | - | - | 9.96 |
| Loans and advances to customers | 7.03 | 9.73 | 14.66 | 6.30 | 6.50 | 13.31 |
| Other asset | - | 6.00 | - | - | 6.00 | - |
| **Liabilities** | | | | | | |
| Other money market deposits | - | - | 10.21 | - | - | 5.16 |
| Funds borrowed | 1.93 | 2.00 | 11.23 | 1.60 | 2.92 | 3.29 |
| Debt securities issued | - | - | 10.49 | - | - | 11.78 |
| Funds from other financial institutions | 0.60 | 0.41 | 9.60 | 1.18 | 1.23 | 7.24 |

**e) Operational risk**

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

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

The Bank calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years, 2011, 2012 and 2013. The amount calculated as TL 24,188 as at 31 December 2014 (31 December 2013 – TL 20,713) represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk.

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### f) Capital management

BRSA, the regulator body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of available-for-sale financial assets and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

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

There have been no material changes in the Bank's management of capital during the period.

The Bank's capital position at 31 December 2014 and 31 December 2013 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Amount subject to credit risk (I) | 552,350 | 479,950 |
| Amount subject to market risk (II) | 20,713 | 3,988 |
| Amount subject to operational risk (III) | 24,188 | 20,713 |
| **Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)** | **597,251** | **504,651** |
| Shareholders' equity: | | |
| Tier 1 capital | 96,168 | 58,191 |
| Tier 2 capital | 4,654 | 13,485 |
| **Total regulatory capital** | **100,822** | **71,676** |
| **Capital adequacy ratio** | **16.88%** | **14.20%** |

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### g) Fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Bank's classification of each class of financial assets and liabilities and their fair values.

| | *Notes* | Trading | Loans and receivables | Available for sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| Cash and cash equivalents | *4* | 194,901 | - | - | - | 194,901 | 194,901 |
| Reserve deposits at Central Bank | *5* | - | 17,491 | - | - | 17,491 | 17,491 |
| Held for trading investments | *6* | 5,136 | - | - | - | 5,136 | 5,136 |
| Available for sale investments | *7* | - | - | 58,755 | - | 58,755 | 58,755 |
| Loans and advances to customers(2) | *8* | - | 356,456 | - | - | 356,456 | 356,456 |
| Other asset | | - | - | - | 4,315 | 4,315 | 4,315 |
| | | 200,037 | 373,947 | 58,755 | 4,315 | 637,054 | 637,054 |
| Funds borrowed(2) | *12* | - | - | - | 119,332 | 119,332 | 119,332 |
| Debt securities issued | *13* | - | - | - | 204,629 | 204,629 | 204,629 |
| Current account of loan customers(1) | *14* | - | - | - | 13,133 | 13,133 | 13,133 |
| | | - | - | - | 337,094 | 337,094 | 337,094 |

(1) Included in other liabilities.

(2) The Bank management assumes that the fair values of the loans and funds borrowed approximate their carrying values since the majority of them are short-term.

| | *Notes* | Trading | Loans and receivables | Available for sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Cash and cash equivalents | *4* | 81,391 | - | - | - | 81,391 | 81,391 |
| Reserve deposits at Central Bank | *5* | - | 6,013 | - | - | 6,013 | 6,013 |
| Held for trading investments | *6* | 7,186 | - | - | - | 7,186 | 7,186 |
| Available for sale investments | *7* | - | - | 82,573 | - | 82,573 | 82,573 |
| Loans and advances to customers(2) | *8* | - | 241,190 | - | - | 241,190 | 241,190 |
| Other asset | | - | - | - | 15,731 | 15,731 | 15,731 |
| | | 88,577 | 247,203 | 82,573 | 15,731 | 434,084 | 434,084 |
| Funds borrowed(2) | *12* | - | - | - | 238,126 | 238,126 | 238,126 |
| Debt securities issued | *13* | - | - | - | 102,308 | 102,308 | 102,308 |
| Current account of loan customers(1) | *14* | - | - | - | 1,593 | 1,593 | 1,593 |
| | | - | - | - | 342,027 | 342,027 | 342,027 |

(1) Included in other liabilities.

(2) The Bank management assumes that the fair values of the loans and funds borrowed approximate their carrying values since the majority of them are short-term.

*Loans and advances to customers*

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

*(Currency - In thousands of Turkish Lira)*

## 25. Financial risk management objectives and policies *(continued)*

### g) Fair values *(continued)*

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

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

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest 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.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. 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. This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| 2014 | *Note* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Held for trading investments | 6 | - | 5,136 | - | 5,136 |
| Available for sale investments | 7 | 58,595 | - | - | 58,595 |
| Derivative financial liabilities held for trading | | - | (2,211) | - | (2,211) |
| | | **58,595** | **2,925** | - | **61,520** |

| 2013 | *Note* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Held for trading investments | 6 | 7,025 | 161 | - | 7,186 |
| Available for sale investments | 7 | 82,573 | - | - | 82,573 |
| Derivative financial liabilities held for trading | | - | (79) | - | (79) |
| | | **89,598** | **82** | - | **89,680** |

*(Currency - In thousands of Turkish Lira)*

## 26. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions.

In the course of conducting its banking business, the Bank conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the year are as follows:

| **2014** | **Balance** | **Percentage of the financial statement amount (%)** |
|---|---|---|
| Cash loans | 24,651 | 7% |
| Non-cash loans | 134,406 | 44% |
| Funds borrowed / Current accounts of loan customers | 20,742 | 45% |

| **2013** | **Balance** | **Percentage of the financial statement amount (%)** |
|---|---|---|
| Cash loans | 118,185 | 54% |
| Non-cash loans | 217,227 | 58% |
| Funds borrowed / Current accounts of loan customers | 36,416 | 15% |

As at 31 December 2014, no provisions have been recognised in respect of loans given to related parties (2013 – none).

Interest and commission income from related parties for the period ended 31 December 2014 amount to TL 21,948 for cash loans and TL 161 for non-cash loans ( 2013: TL 2,912 for cash loans and TL 118 for non-cash loans).

### Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 3,672 comprising salaries and other benefits (2013: TL 4,032 ).

## 27. Events after balance sheet date

None.