PASHA YATIRIM BANKASI A.Ş.

FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2014
WITH INDEPENDENT AUDITOR'S REPORT THEREON

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Pasha Yatırım Bankası A.Ş.

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

Management's responsibility for the financial statements

2. 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

3. 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.

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Opinion

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

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

Talar Gül, SMMM
Partner

Istanbul, 9 March 2015

PASHA YATIRIM BANKASI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2014

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STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014

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

	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	10	1,230	19,491
Loans and advances to customers	11	50,814	26,388
Investment securities	12	1,764	293
Property and equipment	14	292	93
Intangible assets	15	191	41
Deferred tax assets	18	3,302	2,937
Other assets	13	3,010	522
Total assets		**60,603**	**49,765**
Liabilities			
Funds borrowed	16	6,594	-
Other money market deposits	17	1,100	-
Current tax liability		211	160
Employee benefits	19	209	157
Other liabilities and provisions	19	5,616	767
Total liabilities		**13,730**	**1,084**
Equity			
Share capital	20	80,000	80,000
Legal reserves	20	324	324
Retained earnings		(33,446)	(31,643)
Available for sale revaluation fund		(5)	-
Total equity		**46,873**	**48,681**
Total liabilities and equity		**60,603**	**49,765**

The notes on page 5 to 47 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Notes	1 January - 31 December 2014	1 January - 31 December 2013
Interest income	7	5,546	1,310
-Interest income on loans and receivables		*4,761*	*172*
-Interest income on investment securities		*187*	*139*
-Interest income on money market placements		*166*	*940*
-Other interest income		*432*	*59*
Interest expense (-)	7	(205)	(88)
-Interest expense on loans and receivables		*(102)*	*(87)*
-Interest expense on money market deposits		*(67)*	*(1)*
-Other interest expenses		*(36)*	-
Net interest income		**5,341**	**1,222**
Fee and commission income	8	108	27
Fee and commission expense	8	(63)	(95)
Other operating income		235	259
Net fee and commission income		**5,621**	**1,413**
Salaries and employee benefits	9	(4,206)	(2,565)
Depreciation and amortisation	9	(171)	(49)
Other operating expenses	9	(3,412)	(10,982)
Loss from operating activities before income tax		**(2,168)**	**(12,183)**
Income tax expense		-	-
Deferred tax income		365	2,938
Net profit for the year from continuing operations		**(1,803)**	**(9,245)**
Other comprehensive income			
Unrealized (losses) on available-for-sale investments, net of tax		(6)	-
Income tax on other comprehensive income		1	-
Other comprehensive income for the year, net of income tax		**(5)**	**-**
Total comprehensive income for the year		**(1,808)**	**(9,245)**

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

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

	Share capital	Adjustment to Share Capital	Legal Reserve	Retained Earnings	Unrealized losses on available for sale - investments, net of tax	Total
Balance at 1 January 2013	**37,000**	**-**	**324**	**(20,821)**	**-**	**16,504**
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-
Total other comprehensive income for the year	-			(9,245)	-	(9,245)
Cash injection	41,423	-	-	-	-	41,423
Actuarial gain/loss on employee benefits	-					
Transfer to paid in capital	1,577			(1,577)		-
Balance at 31 December 2013	**80,000**	**-**	**324**	**(31,643)**	**-**	**48,681**
Other comprehensive income	**80,000**	**-**	**324**	**(31,643)**	**-**	**48,681**
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	-	-
Total other comprehensive income	-	-	-	(1,803)	(5)	(1,808)
Actuarial gain/loss on employee benefits	-	-	-	-		-
Balance at 31 December 2014	**80,000**	**-**	**324**	**(33,446)**	**(5)**	**46,873**

The notes on page 5 to 47 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Note	1 January - 31 December 2014	1 January - 31 December 2013
Cash flows from operating activities			
Loss for the year		(1,803)	(9,245)
Adjustments for:			
Provision impairment losses on loans	9	173	293
Provision for impairment of subsidiary	9	-	7,926
Depreciation and amortisation		109	49
Change in other provisions		52	20
Net interest income	7	(5,341)	(1,222)
Acquisition of available for sale financial assets	12	(3,654)	(285)
Disposal of available for sale financial assets	12	2,282	-
Net increase in loans and advances to customers		(24,268)	(26,411)
Net decrease in other assets		2,133	267
Net increase/(decrease) in other liabilities		4,900	(324)
Net increase/(decrease) in funds borrowed		7,685	(1,561)
Net cash (used in) operating activities		**(17,732)**	**(30,493)**
Acquisition of property and equipment		(553)	(110)
Issued capital instruments		-	41,423
Net cash (used in)/provided from financing activities		**(553)**	**41,313**
Net (decrease)/increase in cash and cash equivalents		**(18,285)**	**10,820**
Effect of net foreign exchange difference on cash and cash equivalents		**65**	**2**
Cash and cash equivalents at the beginning of the year	**10**	**19,450**	**8,628**
Cash and cash equivalents at the end of the year	**10**	**1,230**	**19,450**

The notes on page 5 to 47 are an integral part of these financial statements.

1 ORGANIZATION AND NATURE OF OPERATIONS

Pasha Yatırım Bankası A.Ş. ("the Bank", "PashaBank") was incorporated on 25 December 1987 as an investment bank with the permission of the Council of Ministers decision no. 6224 which allows the transfer of the Banks' net profit after statutory liabilities and in case of liquidation the transfer of capital to foreign shareholders, and started its financial operations on 1 March 1988. As of 31 December 2014, the Bank operates in its head office in Istanbul and there are no other branches In accordance with the Articles of Association, the Board of Directors shall elect a Chairman among its Turkish members and a Deputy Chairman among its Arab members. The General Manager shall always be nominated by the Arab Shareholders assigned by the Board.

Within the scope of the decision made by the previous parent company of the Bank regarding the sale of shares in the Bank, a share purchase sales agreement was signed with Aksoy Holding A.Ş. on 13 May 2013. With its letter dated 26 June 2013, the BRSA notified the Bank that permission had been given for the direct transfer of 99.4689% of the Bank's shares to Aksoy Holding A.Ş., in accordance with the application made by Aksoy Holding A.Ş. to the BRSA and the agreement signed between the previous partner company of the Bank and Aksoy Holding A.Ş. In the extraordinary general assembly meeting of the Bank on 31 July 2013, decision no. 32 of the board of directors, dated 31 July 2013, regarding the share transfer transaction made to Aksoy Holding A.Ş. by the previous parent of the Bank was approved, and the share transfer in question was accepted on the conditions that the closing transactions are completed, the share transfer realised and the share transfer transactions completed on 2 August 2013.

In the extraordinary general assembly meeting of the Bank on 31 October 2013, it was decided that the principal capital of the Bank should be increased to TL 39,000 from TL 37,000 and in accordance with the BRSA letter on suitability for capital increase, the principal capital of the Bank was increased to TL 39,000 on 13 November 2013.

In the extraordinary general assembly meeting of the Bank on 21 November 2013, it was decided that the principal capital of the Bank should be increased to TL 80,000 from TL 39,000 and in accordance with the BRSA letter on suitability for capital increase, the principal capital of the Bank was increased to TL 80,000 on 29 November 2013.

Pasha Bank OJSC between controlling shareholder Aksoy Holding A.Ş has agreed to the transfer of majority shares to the Pasha Bank OJSC. The Bank's capital take over amounting to TRY 28,795,121 (full TL) after that in according to the changes of articles of incorporation, was decided to increase the principal capital of the Bank from TL 80,000 to TL 255,000 and the Bank's shares of %79.9196 mergered and approved by BRSA decision no 6137 , dated 26 December 2014. The capital increase amounting to TL 175,000 is accounted under paid in capital as of 25 February 2015.

In the extraordinary general assembly meeting of the Bank on 27 January 2015, it was decided to increase paid in capital of the Bank to TL 255,000 by TL 175,000 addition of cash and acceptance of this capital increase share and Article 7 of articles of incorporations was amended as following table and decided to change the Bank title "Pasha Yatırım Bankası A.Ş." Assignment of share process was completed on January 2015. Transaction regarding to change in title of the Bank registered as at 2 March 2015 was announced at Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773.

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

1 ORGANIZATION AND NATURE OF OPERATIONS (Continued)

The partnership structure of the Bank as of 31 December2014, is stated below:

Shareholders	Pain in capital TL	Share percentages %
Aksoy Holding A.Ş.	79,725	99.74
Other	205	0.26
Total	**80,000**	**100.00**

Bank's title was changed to the Pasha Yatırım Bankası A.Ş., trade name to the PashaBank and related to the changes in the registiration dated 2 March 2015 and published on 6 March 2015 to İstanbul Trade Registration.

Shareholders	Pain in capital TL	Share percentages %
Pasha Bank OJSC	203,795	79.91
Aksoy Holding A.Ş.	51,000	20.00
Other	205	0.09
Total	**255,000**	**100.00**

2 BASIS OF PREPARATION

a) Statement of compliance

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

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

The financial statements were authorised for issue by the Board of Directors on 9 March 2015.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value

c) Functional and presentation currency

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

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

2 BASIS OF PREPARATION (Continued)

d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, 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 estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in *Note 5*.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Bank entity.

Foreign currency transactions

Transactions in foreign currencies are recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date with the resulting exchange differences recognised in the statement of comprehensive income.

Foreign currency translation rates used by the Bank as of 31 December 2014 and 2013 are as follows:

	EUR / TL	**USD / TL**
31 December 2014	2.8272	2.3269
31 December 2013	2.9344	2.1304

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

i) Classification

At inception a financial asset was classified in one of the following categories:

Financial assets at fair value through profit or loss (within the category as; held for trading or designated at fair value through profit or loss) and trading liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and trading liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its subsidiary provide money, goods and services directly to a debtor with no intention of trading the receivable.

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

Available-for-sale assets are financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

ii) Recognition

The Bank initially recognizes loans and advances, deposits and debt securities issued on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

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

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

iv) *Fair value measurement principles*

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

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading assets are recognised in the statement of comprehensive income as net gain/(loss) on trading securities.

Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income. Interest earned while holding available-for-sale securities or held to maturity assets is reported as interest income.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, unrestricted cash deposited with central banks, demand deposits at domestic and foreign banks and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the central banks.

Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and trading assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.
Held-to-maturity instruments and loans and receivables are derecognised on the day they are transferred by the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sales and repurchase agreements

The Bank enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ("repos"), continue to be recognised in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed rate at a specified future date ("reverse repos") are not recognised in the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in loan and advances to banks. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

Impairment

Financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or bank of financial assets is impaired. Objective evidence that a financial asset or bank of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 and 150 days;

(c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a bank of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the bank, including:

    i. adverse changes in the payment status of borrowers; or

    ii. national or local economic conditions that correlate with defaults on the assets in the bank of financial assets.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in statement of comprehensive income.

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

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognised in statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditures that are directly attributable to the acquisition of the assets.

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

Property and Equipment	Useful life
Furniture, fixtures and vehicles	3 – 10 years

Expenditures incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to statement of comprehensive income in the year that costs are incurred. Expenditures incurred that have resulted in an increase in which the future economic benefits expected from the use of property and equipment is capitalised as an additional cost of property and equipment.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Intangibles

The Bank intangible assets consist of software.

Intangible assets are initially recorded at their costs in compliance with the IAS 38 – *Intangible Assets*.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The useful life of software is determined as 5 years.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the IAS 36 – *Impairment of Assets* and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Assets held for sale

An asset that is classified as held for sale (or to be discarded fixed assets) is measured with its book value or cost deducted fair value, depending on the lower one. An asset to be classified asset held for sale, particular asset (or to be discarded fixed assets) should be similar to these types of assets and should be able to be sold immediately with commonly accepted terms and conditions. Asset should be marketed in line with its fair value. For selling probability to be high, relevant management level should plan the sale and should finalize the plan by determining the buyers.

Leases

a. Bank is the lessee

Finance leases: Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

Operating leases: Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to a period of notice. Related payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.
When an operating lease is terminated before the lease period has expired, any payment required to be made to the lesser by way of penalty is recognised as an expense in the period in which the termination takes place.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Bank is the lesser

Finance leases: When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance lease receivables are included in loans and advances to customers.

Operating leases: Assets leased out under operating leases are included in the balance sheet based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Interest income and expense

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

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

Fees and commissions income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognised rate apply over the period service is provided.

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

Net trading Income

Net gain on trading and investment securities includes gains and losses arising from disposals and changes in the fair value of trading assets and financial assets available-for-sale.

Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for their customers and government entities are not included in the accompanying balance sheets, since such items are not the assets of the Bank.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserve for employee severance indemnity

Reserve for employee termination benefits

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2014 is TL 3,438.22 (full TL) (31 December 2014: TL 3,254.44 (full TL)).

The Bank reserved for employee severance indemnities in the accompanying financial statements using actuarial method in compliance with the IAS 19 – *Employee Benefits*.

As at 31 December 2014 and 2013, the major actuarial assumptions used in the calculation of the total liability are as follows:

The Bank	**Current Period**	**Prior Period**
Discount Rate	3.50	2.50
Expected Rate of Salary/Limit Increase	6.00	5.00
Estimated Employee Turnover Rate	9.70	7.60

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19– *Employee Benefits* in the accompanying financial statements.

Income taxes

Corporate tax

The Bank is subject to tax laws and legislation effective in Turkey.

Many clauses of Corporate Tax Law No. 5520 ("Tax Law") which are valid starting from 1 January 2006, were taken into effect after being published in the Official Gazette dated 21 September 2006 No. 26205. According to the Tax Law, the corporate tax rate in Turkey is payable at the rate of 20% since 1 January 2006. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (such as capital gains derived from the sale of equity investments) and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

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

Deferred tax

The Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12"). In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfer Pricing Regulations

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the reporting date when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions

A provision is recognised when, and only when, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

Financial guarantees

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

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

Contingencies

Contingent liabilities are not recognised in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. If they are not required to be recognised, they are disclosed. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent events

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

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. Segment information is presented only in respect of the Bank's business segments because of the Bank is operating geographically only in Turkey.

Related party transactions

Related parties include entities, which the Bank has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, their close relatives, companies owned or controlled by them and companies over which they can influence the financial and operating policies. All banking transactions entered into with related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

Amendments in standards and interpretations

The Bank adopted the standards, amendments and interpretations published by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") and which are mandatory for the accounting periods beginning on or after 1 January 2014 which are related to the Company's operations.

Standards, amendments and IFRICs applicable to 31 December 2013 year end

- Amendment to IAS 32,"Financial instruments: Presentation", on offsetting financial assets and financial liabilities, effective from annual periods beginning on or after 1 January 2014. This amendment updates the application guidance in IAS 32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet

- Amendments to IAS 36, "Impairment of assets", effective from annual periods beginning on or after 1 January 2014. These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards, amendments and IFRICs applicable to 31 December 2013 year end (Continued)

- IFRIC 21, "Levies", effective from annual periods beginning on or after 1 January 2014. This interpretation is on IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

- Amendments to IFRS 10, "Consolidated financial statements", IFRS 12 and IAS 27 for investment entities, effective from annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

New IFRS standards, amendments and IFRICs effective after 1 January 2014

- Annual improvements 2012; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards:

  - IFRS 2, "Share-based payment"
  - IFRS 3, "Business Combinations"
  - IFRS 8, "Operating segments"
  - IFRS 13, "Fair value measurement"
  - IAS 16, "Property, plant and equipment" and IAS 38,"Intangible assets"
  - Consequential amendments to IFRS 9, "Financial instruments", IAS 37, "Provisions, contingent liabilities and contingent assets", and
  - IAS 39, Financial instruments – Recognition and measurement"

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

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

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

- Amendment to IFRS 11, "Joint arrangements" on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

New IFRS standards, amendments and IFRICs effective after 1 January 2014 (Continued)

- Amendment to IAS 16, "Property, plant and equipment" and IAS 38, "Intangible assets", on depreciation and amortisation, effective from annual periods beginning on or after 1 January 2016. In this amendment the it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

New IFRS standards, amendments and IFRICs effective after 1 January 2014 (Continued)

- Amendment to IAS 19 regarding defined benefit plans, effective from annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

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

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

4 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Bank's risk approach is to achieve sound and sustainable low risk profile on basis, 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, market risk, liquidity risk, currency risk and operational risk. The Bank's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardised credit risk management

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

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.

4 FINANCIAL RISK MANAGEMENT (Continued)

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

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

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). 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.

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits. All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

Credit risk

The Bank, for the loans to be granted to a single borrower or Bank to be applied in risk limits are based on the regulations of the Banking Law. In order to avoid sectorial concentration, limits have been defined and adherence to limits is monitored on a transaction basis.

Daily loan and securities transactions, adherence to limits and concentration is monitored and reported by the risk management unit. In addition, the value of securities are monitored and credit risk compliance with the limits of the operations, marketing and internal control units are monitored by transaction basis.

Loans and other receivables are subjected to re-evaluation at least once a year by the credit allocation unit, borrower and transaction rating models are used for this purpose.

Lending activities, including the documents received from business units independently of the internal control unit is subject to detective control.

4 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

The Bank does not have positions of forward, option and similar agreements.

When considered within the financial activities of other financial institutions, the Bank as an active participant in the national and international banking market is not exposed to a significant credit risk. With an increase in credit risk amount, use of mentioned derivative products can come up.

The Bank doesn't have any reimbursed non-cash loans, if any are present, they will be weighted in the same risk weight as loans that are overdue.

The Bank has no rescheduled or restructured loans. If any, it is planned to be followed by monthly reports of risk management unit.

Separation of credit risk is performed with debtor rating system and transaction rating system. Maturity based risk separation is not performed.

Cash non-cash loans are put in the same category with the loans that have not been paid at maturity. They are being classified based on collaterals taken and transferred to legal follow-up accounts.

When considered within the financial activities of other financial institutions, the Bank as an active participant in the national and international banking market is not exposed to a significant credit risk

As at 31 December 2014 the rating distribution of Bank's financial instruments is as follows:

Available for sale securities at fair value	**Rating Agency**	**Government bonds**	**Total**
Between Aa3 Aa1	Moody's	1,764	1,764

As at 31 December 2013 the rating distribution of Bank's financial instruments is as follows:

Available for sale securities at fair value	**Rating Agency**	**Government bonds**	**Total**
Between Aa3 Aa1	Moody's	293	293

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

4 FINANCIAL RISK MANAGEMENT (Continued)

As at 31 December 2014 and 2013 sectoral concentrations for cash loans of the Bank are as follows:

	31 December 2014				31 December 2013			
	TL	**(%)**	**FC**	**(%)**	**TL**	**(%)**	**FC**	**(%)**
Services	**37,605**	**73**	**-**	**-**	**21,679**	**81**	**-**	**-**
Financial institutions	37,605		-	-	21,679	-	-	-
Manufacturing	**8,180**	**17**			**-**	**-**	**-**	**-**
Electric, gas and water	1,618		-	-	-	-	-	-
Production	3,072		-	-	-	-	-	-
Construction	**1,003**	**2**	**3,490**	**100**	**5,002**	**19**	**-**	**-**
Services	**1,004**	**2**	**-**	**-**		**-**	**-**	**-**
Health and social services	1,004	-	-	-		-	-	-
Total	**47,793**		**3,490**		**26,681**		**-**	

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Regional	**31 December 2014**	**31 December 2013**
Turkey	50,814	26,388
Other	-	-
Total impaired loans and receivables	**50,814**	**26,388**

There is not any past due but not impaired loans as of 31 December 2014 and 2013.

Neither past due nor impaired loans and past due loans

	31 December 2014	**31 December 2013**
Grade 1: Low risk loans and receivables	50,814	26,388
Grade 2: Close monitoring loans and receivables	-	-
Total	**50,814**	**26,388**
Restructured or rescheduled loans	-	-
Total	**50,814**	**26,388**

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is the risk arising from not having adequate cash or not having adequate cash inflows to fund cash outflows on time due to the imbalance of cash flows.

Treasury Department, manages liquidity of the Bank on a daily basis, and informs the asset-liability committee every week about the Bank's liquidity level. Planning the liquidity management for weekly, monthly, yearly periods, taking the necessary measures and informing the senior management about these is the responsibility of the treasury.

The Bank forms its assets and liabilities in balance in order not to create a negative space in the cumulative basis in the maturity periods.

The Bank Financial Planning & Controlling Unit monitors compliance with policies, limits and indicators in relation to liquidity.

Exposure to Liquidity Risk

	Primary Maturity Split (Weekly)		Secondary Maturity Split (Monthly)	
Current Period	**FC**	**FC+LC**	**FC**	**FC+LC**
Average	5,531	1,489	5,697	1,963
Highest (%)	31,527	7,206	41,911	8,164
Lowest (%)	88	288	83	296

	Primary Maturity Split (Weekly)		Secondary Maturity Split (Monthly)	
Prior Period	**FC**	**FC+LC**	**FC**	**FC+LC**
Average	3,012	3,313	3,169	2,746
Highest (%)	8,120	10,440	8,200	10,807
Lowest (%)	161	349	161	110

31 December 2014	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**
Funds borrowed	6,594	6,628	-	-	6,628	-	-
Other money market deposits	1,100	1,100	-	1,100	-	-	-
Other liabilities	5,616	5,616	2,396			3,220	-
Total	**13,310**	**13,344**	**2,396**	**1,100**	**6,628**	**3,220**	**-**

31 December 2013	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**
Other liabilities	767	767	-	-	-	767	-
Total	**767**	767	-	-	-	767	-

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

4 FINANCIAL RISK MANAGEMENT (Continued)

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

Market risk

Market risk is followed under two headings: market risk arising from trading activities and market risk arising from banking transactions. The basic principle of market risk management is creating a compliant asset / liability structure and providing protection by averting differences with derivative instruments when necessary.

Management of market risk

By the Board of Directors, market risk limits introduced by the minimization of the risks involved were targeted. Defined risk limits are reviewed by the Board of the Directors in 3 month period and updated if necessary. "Standard method" is used in the measurement of market risk in the extent of capital adequacy ratio. Value of the securities portfolio at risk is monitored and is reported to senior management on a monthly basis.

Exposure to market risk - trading portfolios

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

The below table represents the details of the market risk calculation in accordance with the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", section three "Calculation of Market Risk with Standard Method".

31 December 2014	**Average**	**Highest**	**Lowest**
Interest rate risk	-	-	-
Currency risk	95	287	-
Counterparty risk	-	2	-
Total value at risk	**95**	**289**	**-**

31 December 2013	**Average**	**Highest**	**Lowest**
Interest rate risk	5	17	-
Currency risk	8	62	-
Counterparty risk	14	56	-
Total value at risk	**27**	**135**	

Currency risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to the exchange rate movements in the market.

The Bank takes precautions to keep the currency risk at a minimum level. However, the currency risk that may arise has been calculated with the Standard Method on a weekly and monthly basis, and the results are reported to the BRSA and the Bank's senior management. In this regard, currency risk is closely monitored. Currency risk is taken into consideration as a part of the general market risk within the calculation of the Capital Adequacy Ratio.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2014, the Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	EUR	USD	Other Currencies	Total
Cash and cash equivalents	6	1,086	-	1,092
Loans and advances to customers	-	4,655	-	4,655
Other assets	-	29	-	29
Total Foreign Currency Assets	**6**	**5,770**	**-**	**5,776**
Funds borrowed		(5,593)	-	(5,593)
Other liabilities	(1)	(2)	-	(3)
Total Foreign Currency Liabilities	**(1)**	**(5,595)**	**-**	**(5,596)**
Net short position	**5**	**175**	**-**	**180**

As of 31 December 2013, the Bank's foreign currency assets and liabilities may be analysed as follows (TL equivalents):

	EUR	USD	Other Currencies	Total
Cash and cash equivalents	367	72	-	439
Other assets		27	-	27
Total Foreign Currency Assets	**367**	**99**	**-**	**466**
Other liabilities	(307)	-	-	(307)
Total Foreign Currency Liabilities	**(307)**	**-**	**-**	**(307)**
Net short position	**60**	**99**	**-**	**159**

The possible increases or decreases in the shareholders' equity and the profit/loss as per an assumption of devaluation and appreciation by 10% of TL against currencies mentioned below as of 31 December 2014 and 2013 are presented in the below table. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

Assuming 10% depreciation of TL;

	31 December 2014		31 December 2013	
	Income statement	Shareholders' equity (*)	Income statement	Shareholders' equity (*)
US Dollar	(99)	(99)	10	10
Euro	-	-	6	6
Total	**(99)**	**(99)**	**16**	**16**

(*) The effect on shareholders' equity also includes profit/loss effects.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Assuming 10% appreciation of TL;

	31 December 2014		**31 December 2013**	
	Income statement	**Shareholders' equity (*)**	**Income statement**	**Shareholders' equity (*)**
US Dollar	99	99	(10)	(10)
Euro	-	-	(6)	(6)
Total	**99**	**99**	**(16)**	**(16)**

(*) The effect on shareholders' equity also includes profit/loss effects.

Interest rate risk

Cash flow and fair value interest rate risk

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

As at 31 December 2014 exposure to interest rate risk - non-trading portfolios are as follows:

Current Period	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**5 Years and over**	**Total**
Assets						
Cash and cash equivalents	136	1,094	-	-	-	1,230
Loans and advances to banks	32,519	17,486	809	-	-	50,814
Investment securities	-	1,764	-	-	-	1,764
Other assets	-	-	3,010	-		3,010
Total assets	**32,655**	**20,344**	**3,819**	**-**	**-**	**56,818**
Liabilities						
Other money market deposits	1,100	-	-	-	-	1,100
Funds borrowed	1,001	5,593	-	-	-	6,594
Miscellaneous payables	42	-	-	-	-	42
Other liabilities	5,494	23	99	-	-	5,616
Total liabilities	**7,637**	**5,616**	**99**	**-**	**-**	**13,352**
Total interest sensitivity gap	**25,018**	**14,728**	**3,720**	**-**	**-**	**43,466**

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

4 FINANCIAL RISK MANAGEMENT (Continued)

As at 31 December 2013 exposure to interest rate risk - non-trading portfolios are as follows:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and over	Total
Assets						
Cash and cash equivalents	18,165	1,325	-	-	-	19,490
Loans and advances to banks	18,668	7,720	-	-	-	26,388
Investment securities	-	-	293	-	-	293
Other assets	522	-	-	-	-	522
Total assets	**37,355**	**9,045**	**293**	**-**	**-**	**46,693**
Liabilities						
Miscellaneous payables	213	-	46	-	-	259
Other liabilities	767	-	-	-	-	767
Total liabilities	**980**	**-**	**46**	**-**	**-**	**1,026**
Total interest sensitivity gap	**36,375**	**9,045**	**247**	**-**	**-**	**45,667**

The following table indicates the average interest rates by major currencies for the major accounts of the statement of financial position for the years 2014 and 2013:

	EUR (%)	USD (%)	TL (%)
31 December 2014			
Cash and cash equivalents	-	0.12	10.59
Loans and advances to customers	-	5.46	12.25
Investment securities	-	-	10.54
Funds borrowed	-	0.79	10.11
Other money market deposits	-	-	9.95

	EUR (%)	USD (%)	TL (%)
31 December 2013			
Cash and cash equivalents	-	-	8.65
Loans and advances to customers	-	-	10.19
Investment securities	-	-	9.11

Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events.

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

The Bank has Risk Management and Internal Control practices to keep operational risks under control and minimize it by operating under detailed written procedures. All documents, including Risk Management policies and contingency procedures, are kept up-to-date and accessible to all staff in electronic media.

"Basic Indicator Method" is used to calculate Bank's value at operational risk. Value at operational risk is calculated in accordance with the "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratio of Banks'" that published at 28 June 2012 official gazette numbered 28337 and according to the 3rd section "Computation of the Value at Operational Risk" which became valid at 1 June 2007 using the Bank's the last three years; 2013, 2012 and 2011 year end gross revenues.

	2011	2012	2013	Gross Income	Ratio (%)	Total
Gross Income	387	305	1,215	636	15	95
Operational Risk (Total*12.5)						**1,188**

Capital adequacy

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.

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.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

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

	31 December 2014	31 December 2013
Tier 1 capital	43,537	48,598
Tier 2 capital	390	238
Deductions from capital	-	-
Total regulatory capital	**43,927**	**48,836**
Required capital for credit risk	2,495	1,475
Required capital for operational risk	95	47
Total regulatory capital expressed as a percentage of total risk-weighted assets, VaR and operational risk	**135.43**	**256.63**

5 USE OF ESTIMATES AND JUDGMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see *Note 4*)

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in *Note 3(g)*.

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

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are and to determine the required input parameters, based on historical experience and current economic conditions.

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

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

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 *Note 3(c) (iv).* For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the Bank's accounting policies

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

Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in *Note 3(c).*

- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in *Note 3(c).*

- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by *Note 3(c).*

The table below shows the carrying and fair values of financial assets and liabilities of the Bank:

	31 December 2014		31 December 2013	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Assets				
Cash and cash equivalents	1,230	1,230	19,491	19,491
Loans and advances to customers	50,814	50,814	26,388	26,388
Investment securities	1,764	1,764	293	293
Total financial assets	**53,808**	**53,808**	**46,172**	**46,172**
Liabilities				
Funds borrowed	6,594	6,594	-	-
Other money market deposits	1,100	1,100	-	-
Total financial liabilities	**7,694**	**7,694**	**-**	**-**

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

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or,
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	1,764	-	-	1,764
Total	**1,764**	**-**	**-**	**1,764**

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	293	-	-	293
Total	**293**	**-**	**-**	**293**

6 SEGMENT REPORTING

Information on operational segments on 31 December 2014 and 2013 are as follows:

31 December 2014	**Corporate banking**	**Treasury and asset liability management**	**Total**
Total asset	50,814	9,789	60,603
Total liabilities	2,396	11,826	14,222
Net interest income	4,761	580	5,341
Net fee and commission income/(loss)	80	(34)	46
Other operating segments gain/(loss)	-	236	236
Other operating expenses (-)	(173)	(7,618)	(7,791)
Profit before tax	**4,668**	**(6,836)**	**(2,168)**
Tax income		365	365
Net profit	**4,668**	**(6,471)**	**(1,803)**

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

6 SEGMENT REPORTING (Continued)

31 December 2013	**Corporate banking**	**Treasury and asset liability management**	**Total**
Total asset	26,388	23,377	49,765
Total liabilities	2,396	11,826	14,222
Net interest income	172	1,050	1,222
Net fee and commission income/(loss)	24	(93)	(69)
Other operating segments gain	-	259	259
Other operating expenses (-)	(293)	(13,302)	(13,595)
Profit before tax	**(97)**	**(12,086)**	**(12,183)**
Tax income		2,938	2,938
Net profit	**(97)**	**(9,148)**	**(9,245)**

7 NET INTEREST INCOME

	1 January - 31 December 2014	**1 January - 31 December 2013**
Interest income		
Loans and advances to customers	*4,761*	*172*
Loan and advances to banks	*432*	*59*
Investment securities	*187*	*139*
Money market transactions	*166*	*940*
	5,546	**1,310**
Interest expense and similar charges		
Deposits from banks and customers	-	-
Funds borrowed	*(102)*	*(87)*
Money market deposits	*(67)*	*(1)*
Other	*(36)*	-
	(205)	**(88)**
Net interest income	**5,341**	**1,222**

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

8 NET FEE AND COMMISSION INCOME

	1 January - 31 December 2014	**1 January - 31 December 2013**
Fee and commission income		
Fees from banking services		
Non-cash loans	79	24
Cash loans	29	3
	108	**27**
Fee and commission expense		
Fees for banking service expense	(63)	(95)
	(63)	**(95)**
Net fee and commission income	**45**	**(68)**

9 OPERATING EXPENSES

	1 January - 31 December 2014	**1 January - 31 December 2013**
Salaries and employee benefits	4,206	2,565
Depreciation and amortisation expenses	171	49
Other operating expenses	3,239	10,689
	7,616	**13,303**

Salaries and employee benefits

Wages and salaries	3,864	2,194
Change in employee benefit provisions	80	279
Travel allowance	10	13
Other fringe benefits	1	-
Other	251	103
	4,206	**2,565**

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

9 OPERATING EXPENSES (Continued)

	1 January - 31 December 2014	1 January - 31 December 2013
Other operating expenses		
Rent expense	777	516
IT expense	657	13
Contribution expenses	402	482
Audit fee	305	333
Operational lease expense	289	-
Office expense	250	229
Subscription expense	186	221
Loan loss provision	173	293
Insurance expenses	34	3
Represented expenses	33	36
Transportation expenses	25	10
Non-tax-deductible expenses	20	49
Repair and maintenance expenses	15	73
Impairment of subsidiary (*)	-	7,926
Other	246	798
Total	**3,412**	**10,982**

(*) An impairment provision of TL 7,926 has been set aside for the book value of the subsidiary with respect to the board of director's decision dated 31 December 2013, numbered 77. Also, the loan granted to PDF amounting TL 550 has been written-off.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, balances with banks with original maturity periods of less than three months. As at 31 December 2014 and 2013, cash and cash equivalents presented in the statement of financial position and cash flows are as follows:

	31 December 2014	31 December 2013
Cash on hand	4	3
Loans and advances to banks with original maturity less than three months	1,094	3,443
Balances with the Central Bank excluding reserve deposits (*)	132	14
Receivables from repurchase agreements	-	15,903
Cash and cash equivalents (**)	**1,230**	**19,491**

(*) According to CBRT's "Required Reserves Announcement" numbered 2005/1, for Turkish currency and foreign currency denominated liabilities, reserve requirement amounts held in CBRT have been included in cash and cash equivalents. Reserve deposits required by the Central Bank of Turkey are not interest bearing

(**) For the purposes of the cash flow statement, cash and cash equivalents amounting to TL 1,290 (2013: TL 19,450) as of 31 December 2014 comprised from cash and due from banks excluding accrued interest and blocked deposits.

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

10 CASH AND CASH EQUIVALENTS (Continued)

Loans and advances to banks with original maturity less than three months

	31 December 2014	31 December 2013
Loan and advances to banks - demand	1,094	394
Loan and advances to banks - time	-	3,049
Loan and advances to banks	**1,094**	**3,443**

Repurchase agreements

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

	2014 Carrying Value of corresponding assets	2013 Carrying Value of corresponding assets
Reverse repurchase agreements	-	15,903

The Bank has no reverse repurchase agreements as of 31 December 2014 (31 December 2013: accrued interest on obligations under repurchase agreements amounting to TL 3,371 and is included in the carrying amount of corresponding assets.)

11 LOANS AND ADVANCES TO CUSTOMERS

Outstanding loans and advances to customers are as follows:

	31 December 2014	31 December 2013
Loans to financial institutions	37,605	21,679
Corporate loans	13,677	5,002
Consumer loans	-	-
Total performing loans	**51,282**	**26,681**
Non-performing loans	-	-
Total gross loans	**51,282**	**26,681**
Impairment provision for loans	(468)	(293)
Loans and advances to customers, net	**50,814**	**26,388**

The Bank generally seeks collateral security comprising real estate and other mortgages of varying ranking, cheques and bills, cash collaterals, personal guarantee of shareholders, and similar items.

The specific reserve for impairment losses is comprised of amounts for specifically identified problem and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

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

12 INVESTMENT SECURITIES

Investment securities as of 31 December 2014 and 2013 comprise the following:

	Face value	Carrying value	Interest rate (%)	Latest maturity
Available-for-sale financial assets				
Equity instruments:				
unlisted equity shares	1,193	1,764	10.54	11 February 2015
Total available-for-sale financial assets		**1,764**	**10.54**	
Total investment securities		**1,764**	**10.54**	

Investment securities as of 31 December 2013 comprise the following:

	Face value	Carrying value	Interest range (%)	Latest maturity
Available-for-sale financial assets				
Equity instruments:				
Unlisted equity shares	300	293	10.19	9 April 2014
Total available-for-sale financial assets		**293**	**10.19**	
Total investment securities		**293**	**10.19**	

The movement in investment securities is summarised as follows:

	31 December 2014			31 December 2013		
	Available for Sale	Held to Maturity	Total	Available for Sale	Held to Maturity	Total
At 1 January	**293**	**-**	**293**	**-**	**-**	**-**
Additions	3,654	-	3,654	293	-	293
Change in amortised costs	99	-	99	-	-	-
Impairment	-	-	-	-	-	-
Disposals (sale and redemption)	(2,282)	-	(2,282)	-	-	-
At 31 December	**1,764**	**-**	**1,764**	**293**	**-**	**293**

As of 31 December 2014, the Bank does not have any marketable securities subjected to repurchase transactions (At 31 December 2013: None). As of 31 December 2014, the Bank does not have any amounted security is held on collateral/blocked for guarantee. (At 31 December 2013: None)

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

13 OTHER ASSETS

As at 31 December 2014 and 2013 other assets comprised the following items:

	31 December 2014	31 December 2013
Clearing account	2,698	102
Prepaid expenses	60	192
Current tax asset	38	149
Miscellaneous receivables	30	50
Given cash guarantee	6	20
BIST collateral debt instruments	6	-
Others	172	9
	3,010	**522**

14 PROPERTY AND EQUIPMENT

Movement in bank premises and equipment is as follows:

	Furniture and fixtures	Total
Opening net book amount - 1 January 2014	93	93
Additions	332	332
Disposals	(32)	(32)
Depreciation charge (Note 9)	(101)	(101)
Closing net book amount - 31 December 2014	**292**	**292**

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

14 PROPERTY AND EQUIPMENT (Continued)

At 31 December 2014

Cost	802	802
Accumulated depreciation	(510)	(510)
Net book amount	**292**	**292**

31 December 2013

	Furniture and fixtures	Total
Opening net book amount - 1 January 2014	68	68
Additions	74	74
Disposals	(7)	(7)
Depreciation charge (Note 9)	(42)	(42)
Closing net book amount	**93**	**93**

At 31 December 2013

Cost	728	728
Accumulated depreciation (-)	(634)	(634)
Net book amount	**93**	**93**

15 INTANGIBLE ASSETS

Intangible assets comprise software purchased and related licenses.
Movement in intangible assets is as follows:

Year ended 31 December	**2014**	**2013**
Opening net book amount / 1 January	41	11
Additions	223	36
Disposals	-	-
Amortization charge (Note 9) (-)	(73)	(6)
Closing net book amount /31 December	**191**	**41**

At 31 December 2014

Cost	935	936
Accumulated amortization (-)	(744)	(895)
Net book amount	**191**	**41**

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

16 FUNDS BORROWED

As at 31 December 2014 and 2013 funds borrowed comprised the following:

	31 December 2014	**31 December 2013**
Short term		
Fixed interest-TL	1,000	-
Fixed interest-FC	5,593	-
Medium and long term		
Fixed interest-TL	-	-
Fixed interest-FC	-	-
Total	**6,594**	**-**

The average interest rates for funds borrowed are ranging between 0.79 % and 10.11 % for funds borrowed.

17 OTHER MONEY MARKET DEPOSITS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

	31 December 2014		**31 December 2013**	
	Fair value of underlying assets	**Carrying Value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying Value of correspondingg liabilitieses**
Financial assets at fair value through Profit or loss – Trading assets	1,100	1,100	-	-
	1,100	**1,100**	**-**	**-**

Accrued interest on obligations under repurchase agreements amounted to TL 279 (Full TL) (31 December 2013: none) and is included in the carrying amount of corresponding liabilities.

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

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

18 TAXATION

The total provision for taxes on income is different than the amount computed by applying the statutory tax rate to profit before provision for taxes on income as shown in the following reconciliation tables for the years ended 31 December 2014 and 2013:

	31 December 2014	31 December 2013
Loss before taxation	(1,995)	(11,890)
Theoretical tax expense with 20% tax rate	399	2,378
Tax free income	(34)	560
Income tax expense	**365**	**2,938**

	31 December 2014	31 December2013
Corporate tax paid	-	-
Less: prepaid corporate tax	-	-
Current income tax liabilities - net	**-**	**-**

Current year taxation income comprises the following:

	31 December 2014	31 December 2013
Current tax expense	-	-
Deferred tax income	365	2,938
Income tax expense	**365**	**2,938**

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

Deferred tax assets	31 December 2014	31 December 2013
Financial losses	3,212	2,855
Reserve for employee benefits	42	31
Equalization reserve	41	40
Others	17	16
Total deferred tax assets	**3,312**	**2,942**
Deferred tax liabilities		
Amortization and depreciation	(8)	(5)
Other	(2)	-
Total deferred tax liabilities	**(10)**	**(5)**
Net deferred tax assets	**3,302**	**2,937**

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

18 TAXATION (Continued)

	Allowable financial losses	Last date of sale
2014	588	31 December 2019
2015	762	31 December 2020
2016	871	31 December 2021
2017	560	31 December 2022
2018	430	31 December 2023
	3,212	

The movements in the deferred tax asset/liability for the year ended 31 December 2014 and 2013 are as follow:

	31 December 2014	31 December 2013
Deferred tax asset at the beginning of the year	2,937	-
Recognised in profit or loss during the year	365	2,937
Deferred tax asset at the end of the year	**3,302**	**2,937**

19 OTHER LIABILITIES, OTHER PROVISIONS AND EMPLOYEE BENEFITS

	31 December 2014	31 December 2013
Cheques submitted to settlement and custody bank	2,698	-
Borrower funds	2,393	322
Lease payables	135	-
Other provisions	127	83
Miscellaneous payables	263	362
Other Liabilities and provisions	**5,616**	**767**

	31 December 2014	31 December 2013
Reserve for employee severance indemnity	160	157
Reserve for unused vacation	49	-
Total employee benefits	**209**	**157**

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

19 OTHER LIABILITIES, OTHER PROVISIONS AND EMPLOYEE BENEFITS (Continued)

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

	31 December 2014	31 December 2013
Balances, beginning of the year/1 January	157	137
Interest and Service cost	3	20
Balances, at the end of the year/31 December	**160**	**157**

Movement in unused vacation liability provision during the year is as follows:

	31 December 2014	31 December 2013
Balances, beginning of the year/1 January	-	-
Current year provision	49	-
Balances, at the end of the year/31 December	**49**	**-**

20 SHARE CAPITAL AND LEGAL RESERVES

Share capital:

As of 31 December 2014, the authorised nominal share capital of Pasha Yatırım Bankası A.Ş. amounted to TL 80,000 (2013: TL 80,000), comprising 80 million (Full TL) registered shares of one TL 0.01 each.

As of 31 December 2014 the Bank’s historical subscribed and issued share capital was TL 80,000 (31 December 2013: TL 80,000).

As of 31 December 2014 and 2013 the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2014		31 December 2013	
	Amount	**%**	**Amount**	**%**
Aksoy Holding A.Ş.	79,795	99.74	79,795	99.74
Others	205	0.26	205	0.26
Total	**80,000**		**80,000**	
Adjustment to share capital	-		-	
Total	**80,000**		**80,000**	

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

20 SHARE CAPITAL AND LEGAL RESERVES

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. The statutory legal reserve is 324 as of 31 December 2014 and 2013.

Within the scope of the decision taken by the previous parent company of the Bank regarding the sale of shares in the Bank, a share purchase sales agreement was signed with Aksoy Holding A.Ş. on 13 May 2013. It was declared to the Bank with the correspondence of BRSA dated 26 June 2013 that the Bank is permitted to transfer %99.4689 of its shares to Aksoy Holding A.Ş. within the scope of the application made by Aksoy Holding A.Ş. and the agreement signed between Aksoy Holding A.Ş. and the Bank by BRSA.

In the general assembly of the Bank dated 31 October 2013, it was decided to increase the principal capital of the Bank from TL 37,000 to TL 39,000, and with respect to the BRSA's suitability correspondence the Bank's principal capital has been increased to TL 39,000 on 13 November 2013.

In the general assembly of the Bank on 21 November 2013, it was decided to increase the principal capital of the Bank from TL 39,000 to TL 80,000 and with respect to the BRSA's suitability correspondence the Bank's principal capital has been increased to TL 80,000 on 29 November 2013.

The approval regarding to the Pasha Bank OJSC's acquisition of the TL 28,795,121 (full TL) of the Bank's paid in capital after then holding % 79.9196 of the Bank's shares after increasing the Bank's total paid in capital from TL 175,000 to TL 225,000 and change in Bank's articles of incorporation was stated to the Bank by BRSA's decision dated 26 December 2014 and numbered 6137.

21 COMMITMENTS AND CONTINGENT LIABILITIES

27.1 Letters of guarantee, letters of credit, acceptances and other credit related commitments

Commitments and contingent liabilities arising in the ordinary course of business comprised the following principal items:

	31 December 2014	**31 December 2013**
Guarantee notes	38,371	18,236
Letters of guarantee	6,813	2,195
Commercial notes received for collection	774	56
Total non-cash loans		
Other commitments (*)	10	3,845
Total	**45,976**	**24,332**

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

21 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Outstanding letters of guarantee of the Bank are presented based on economic sectors as follows:

	31 December 2014	31 December 2013
Wholesale and retail	2,090	2,130
Restaurant business	4,247	-
Others	476	65
Total	**6,813**	**2,195**

27.3 Litigation

The Bank has provided TL 83 (31 December 2013: TL 83) of provision for the disputed legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

22 SUBSEQUENT EVENTS

In the extraordinary general assembly meeting of the Bank on 27 January 2015, 28,795,121 count Aksoy Holding A.Ş.'s share were transfered to the Pasha Bank OJSC, has addressed 15 Yusif Mammadaliyev Cad., Baku, AZ1005 Azerbaijan.

With transfer of shares of Aksoy Holding A.Ş. amounting to 28,795,121 to Pasha Bank OJSC and aqusition of shares of Aksoy Holding A.Ş. by Pasha Bank OJSC amounting to 175,000,000, equals to the increased capital in the Extraordinary General Assembly Meeting of the Bank dated 27 January 2015, share percentage of Pasha Bank OJSC has been increased to %79.9196 and the Pasha Bank Group takes control of the Bank.

The approval regarding to completion of transactions related with transferring of 175,000 TL to share capital paid by Pasha Bank OJSC was declared to he Bank with the BRSA's article numbered 32521522-101.01(13) – 3230, dated 25 February 2015 and at the same date 175,000 TL were booked on the paid in capital account.

After these transactions mentioned above Aksoy Holding A.Ş.'s share percentage has been occurred as %20.

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

22 SUBSEQUENT EVENTS (Continued)

Bank's title was changed to the Pasha Yatırım Bankası A.Ş., trade name to the PashaBank and related to the changes in the registration dated 2 March 2015 and published on 6 March 2015 to İstanbul Trade Registration.

	31 December 2014		31 December 2013	
	Amount	**%**	**Amount**	**%**
Pasha Bank OJSC	203,795	79.91	-	-
Aksoy Holding A.Ş.	51,000	20	79,795	99.74
Others	205	0.08	205	0.26
Total	**255,000**		**80,000**	

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