

# **Türkiye İş Bankası A.Ş.**

Separate Financial Statements  
As at and for the Year Ended  
31 December 2014

29 April 2015

*This report includes 87 pages of "separate financial statements together with their explanatory notes".*

İŞBANK'S SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014

The accompanying financial statements are separate financial statements of Türkiye İş Bankası A.Ş. ("the Bank"). Consolidation of subsidiaries (IFRS 10), joint venture accounting (IFRS 11) and equity method of accounting for associated companies (IAS 28) have not been applied in the accompanying separate financial statements and disclosures.

As at the reporting date, the accompanying separate statement of financial position includes a general provision amounting to TL 1,000,000 thousands provided by the Bank management in line with conservatism principle considering the potential circumstances which may arise from any changes in the economy or market conditions.

Yours faithfully,



TÜRKİYE İŞ BANKASI A.Ş.  
İstanbul

29 April 2015

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**TÜRKİYE İŞ BANKASI A.Ş.****SEPARATE STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014***(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)*

<b>ASSETS</b>	<b>Note</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Cash and cash equivalents	4	2,501,757	2,152,335
Balances with the Central Bank	5	22,049,548	20,807,718
Loans and advances to banks	6	1,393,221	1,527,610
Financial assets at fair value through profit or loss (net)		1,238,255	2,203,558
-Trading investment securities	7-a	264,946	890,985
-Derivative financial instruments	8	973,309	1,312,573
Loans and advances to customers	9	154,423,426	134,162,847
Investment securities		40,557,150	35,947,193
- Available for sale investment securities	7-b	39,256,046	28,319,745
- Held to maturity investment securities	7-c	1,301,104	7,627,448
Investments in equity participations (net)	10	9,658,887	7,778,938
Property and equipment	12	1,901,790	1,831,606
Non-current assets held for sale	11	60,361	72,557
Intangible assets	13	274,107	195,959
Other assets	14	1,286,775	1,702,697
Deferred tax asset	19-a	703,531	664,315
<b>TOTAL ASSETS</b>		<b>236,048,808</b>	<b>209,047,333</b>

The accompanying notes form an integral part of these separate financial statements.

**TÜRKİYE İŞ BANKASI A.Ş.****SEPARATE STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014***(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)*

<b>LIABILITIES</b>	<b>Note</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
Deposits	15	133,551,191	120,974,765
<i>Deposits from banks</i>		6,397,382	3,979,410
<i>Deposits from customers</i>		127,153,809	116,995,355
Obligations under repurchase agreements	16	17,696,116	20,916,278
Funds borrowed	17	20,657,282	15,909,946
Debt Securities Issued	18	17,132,522	10,080,005
Derivative financial instruments	8	630,151	981,522
Other taxes and dues payable	19-a	257,216	214,349
Corporate tax liability	19-a	392,371	104,681
Provisions	20	3,711,931	3,639,221
Other liabilities	21	7,679,151	8,193,608
Subordinated liabilities	22	3,268,784	2,984,143
<b>TOTAL LIABILITIES</b>		<b>204,976,715</b>	<b>183,998,518</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	23	6,115,938	6,115,938
Share premium		3,694	3,694
Legal reserve		2,246,666	2,044,830
Fair value reserve		4,979,168	2,012,390
Translation reserve		7,177	61,360
Retained earnings		17,728,127	14,810,603
Actuarial gain/(loss) on employee termination benefits		(8,677)	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>31,072,093</b>	<b>25,048,815</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>236,048,808</b>	<b>209,047,333</b>
<b>Commitments and Contingencies</b>	28	<b>165,974,207</b>	<b>163,132,517</b>

The accompanying notes form an integral part of these separate financial statements.

# TÜRKİYE İŞ BANKASI A.Ş.

## SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Note	01/01/2014- 31/12/2014	01/01/2013- 31/12/2013
<b>Interest Income</b>			
Interest income on loans		12,699,784	10,390,523
Interest income on reserve deposits at the Central Bank		-	-
Interest income on deposits at banks		20,902	8,190
Interest income on interbank funds sold		89	167
Interest income on securities portfolio		3,362,323	3,014,775
Other interest income		18,992	41,777
<b>Total interest income</b>		<b>16,102,090</b>	<b>13,455,432</b>
<b>Interest Expense</b>			
Interest expense on deposits		(5,681,369)	(4,854,411)
Interest expense on interbank funds borrowed		(1,387,475)	(946,292)
Interest expense on borrowings		(482,494)	(338,799)
Interest expense on debt securities issued		(1,019,320)	(584,757)
Other interest expenses		(61,033)	(80,993)
<b>Total interest expense</b>		<b>(8,631,691)</b>	<b>(6,805,252)</b>
<b>Net interest income</b>		<b>7,470,399</b>	<b>6,650,180</b>
<b>Fee and commission and other operating income</b>			
Fee and commission income	24	2,334,651	2,161,442
Fee and commission expense	24	(330,873)	(231,611)
<b>Net fee and commission income</b>		<b>2,003,778</b>	<b>1,929,831</b>
Securities trading income, (net)		442,569	155,651
Derivative trading income/(expense), (net)		(887,931)	(249,394)
Foreign exchange gains /( losses), (net)		630,867	320,668
Other operating income	25	568,826	432,691
General administrative and other operating expenses	26	(5,622,979)	(5,111,325)
Reversal of impairment losses on loans and receivables, (net)	9,20	(729,209)	(308,778)
<b>Operating profit</b>		<b>3,876,320</b>	<b>3,819,524</b>
Dividend income		594,982	450,312
<b>Income before taxation</b>		<b>4,471,302</b>	<b>4,269,836</b>
Income tax expense	19-b	(797,532)	(704,179)
<b>Net profit for the year</b>		<b>3,673,770</b>	<b>3,565,657</b>
<b>Earnings per C Class share (full TL)</b>	32	<b>0,0327</b>	<b>0,0317</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Change in unrealised gain on available for sale investments		1,646,181	(1,557,150)
Net losses on available for sale assets transferred to the profit or loss on disposal		174,672	(53,993)
Change in fair value of investment in equity participations		1,435,733	(107,746)
Change in currency translation difference		(21,246)	41,777
Related Tax		(289,808)	-
Remeasurements of defined benefit liability		(52,017)	32,937
Related Tax		10,403	-
<b>Other comprehensive income for the year net of income tax</b>		<b>2,903,918</b>	<b>(1,644,175)</b>
<b>Total comprehensive income for the year</b>		<b>6,577,688</b>	<b>1,921,482</b>

The accompanying notes form an integral part of these separate financial statements.

# TÜRKİYE İŞ BANKASI A.Ş.

## SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Note	Share Capital	Share Premium	Legal Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Shareholders' Equity
<b>Balance at 1 January 2013</b>		<b>6,115,938</b>	<b>3,694</b>	<b>1,816,495</b>	<b>3,731,279</b>	<b>(13,354)</b>	<b>12,132,399</b>	<b>23,786,451</b>
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	-	3,565,657	3,565,657
<b>Other comprehensive income</b>								
Change in unrealised gain on available for sale investments		-	-	-	(1,557,150)	-	-	(1,557,150)
Net loss on available-for-sale assets transferred to profit/loss on disposal		-	-	-	(53,993)	-	-	(53,993)
Change in fair value of investment in equity participations		-	-	-	(107,746)	-	-	(107,746)
Foreign currency translation difference		-	-	-	-	41,777	-	41,777
Other		-	-	-	-	32,937	-	32,937
<b>Total other comprehensive income</b>		-	-	-	<b>(1,718,889)</b>	<b>74,714</b>	-	<b>(1,644,175)</b>
<b>Total comprehensive income for the year</b>		-	-	-	<b>(1,718,889)</b>	<b>74,714</b>	3,565,657	<b>1,921,482</b>
<b>Transactions with owners, recorded directly in equity</b>								
Capital increase		-	-	-	-	-	-	-
Dividends to equity holders	23	-	-	-	-	-	(659,118)	(659,118)
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	<b>(659,118)</b>	<b>(659,118)</b>
Transfer to legal reserve	23	-	-	228,335	-	-	(228,335)	-
<b>Balances at 31 December 2013</b>		<b>6,115,938</b>	<b>3,694</b>	<b>2,044,830</b>	<b>2,012,390</b>	<b>61,360</b>	<b>14,810,603</b>	<b>25,048,815</b>
<b>Balance at 1 January 2014</b>		<b>6,115,938</b>	<b>3,694</b>	<b>2,044,830</b>	<b>2,012,390</b>	<b>61,360</b>	<b>14,810,603</b>	<b>25,048,815</b>
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	-	3,673,770	3,673,770
<b>Other comprehensive income</b>								
Change in unrealised gain on available for sale investments		-	-	-	1,356,373	-	-	1,356,373
Net loss on available-for-sale assets transferred to profit/loss on disposal		-	-	-	174,672	-	-	174,672
Change in fair value of investment in equity participations		-	-	-	1,435,733	-	-	1,435,733
Foreign currency translation difference		-	-	-	-	(21,246)	-	(21,246)
Other		-	-	-	-	(41,614)	-	(41,614)
<b>Total other comprehensive income</b>		-	-	-	<b>2,966,778</b>	<b>(62,860)</b>	-	<b>2,903,918</b>
<b>Total comprehensive income for the year</b>		-	-	-	<b>2,966,778</b>	<b>(62,860)</b>	3,673,770	<b>6,577,688</b>
<b>Transactions with owners, recorded directly in equity</b>								
Capital increase		-	-	-	-	-	-	-
Dividends to equity holders	23	-	-	-	-	-	(554,410)	(554,410)
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	<b>(554,410)</b>	<b>(554,410)</b>
Transfer to legal reserve	23	-	-	201,836	-	-	(201,836)	-
<b>Balances at 31 December 2014</b>		<b>6,115,938</b>	<b>3,694</b>	<b>2,246,666</b>	<b>4,979,168</b>	<b>(1,500)</b>	<b>17,728,127</b>	<b>31,072,093</b>

The accompanying notes form an integral part of these separate financial statements.

# TÜRKİYE İŞ BANKASI A.Ş.

## SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

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

	Note	01/01/2014- 31/12/2014	01/01/2013- 31/12/2013
<b>Cash flows from operating activities</b>			
Profit for the year		3,673,770	3,565,657
<b>Adjustments for:</b>			
Depreciation of property and equipment	11,12	223,603	207,057
Amortisation of intangible assets	13	117,555	95,708
Net impairment losses on loans and advances	9	921,137	839,904
Net impairment loss on equity participations	10	-	-
Collections and reversals from loan losses	9	(168,876)	(585,488)
Net interest income		(7,470,399)	(6,650,180)
Impairment loss/(reversal) on property and equipment	12	(128,431)	(45,628)
Employment termination benefits	20	118,981	16,248
Other provision (income)/ expense		(151,620)	181,611
Income tax expense	19	1,116,157	363,860
Dividends received		(594,982)	(450,312)
Accrued interest and other (income)/expense		(5,321,734)	3,788,922
Deferred tax benefit	19	(318,625)	340,319
Translation of foreign branches		(54,183)	74,714
Gain on sale of property and equipment		112,784	4,451
<b>Operating income (loss) before changes in operating assets / liabilities</b>		<b>(7,924,863)</b>	<b>1,746,843</b>
<b>Changes in operating assets and liabilities:</b>			
Change in loans and advances to banks		(1,743,870)	(3,575,370)
Change in financial assets at fair value through profit or loss		606,239	(148,595)
Change in loans and advances to customers		(13,712,815)	(21,036,067)
Change in other assets		246,374	(862,170)
Change in deposits		11,194,005	8,795,490
Change in obligations under repurchase agreements		(2,749,629)	7,403,918
Change in liabilities and provisions		(785,768)	(1,142,301)
Income tax paid		(958,984)	(777,636)
Employment severance indemnity paid	20	(17,220)	(20,019)
<b>Net cash from (used in) operating activities</b>		<b>(15,846,531)</b>	<b>(9,615,907)</b>
<b>Cash flows from investing activities:</b>			
Acquisition of available for sale investment securities	7	(19,131,904)	(11,765,534)
Proceeds from sale of available for sale investment securities	7	10,339,346	8,900,633
Acquisition of investment securities		(76,112)	(24,953)
Proceeds from sale of investment securities		6,545,492	2,926,786
Acquisition of investments in equity participations		-	(54,456)
Proceeds from sale of investments in equity participations		9,951	214,325
Dividends received		150,765	163,755
Acquisition of property and equipment	12	(319,009)	(206,604)
Proceeds from sale of property and equipment		223,680	211,624
Acquisition of intangible assets	13	(195,703)	(193,377)
<b>Net cash used in investing activities</b>		<b>(2,453,494)</b>	<b>172,199</b>
<b>Cash flows from financing activities:</b>			
Proceeds from loans and advances from banks (net)		4,046,812	3,000,768
Proceeds from issuance of debt securities		(11,205,882)	(10,057,399)
Payments to issued debt securities		17,398,522	13,473,219
Proceeds from subordinated liabilities		265,190	845,000
Repayment of finance lease liabilities		-	-
Interest received		16,142,716	12,749,992
Interest paid		(8,147,404)	(6,739,884)
Dividends paid	23	(649,410)	(796,619)
<b>Net cash from financing activities</b>		<b>17,850,544</b>	<b>12,475,077</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(449,481)</b>	<b>3,031,369</b>
<b>Cash and cash equivalents at 1 January</b>		<b>9,540,517</b>	<b>5,913,386</b>
Effect of foreign exchange rate fluctuations on cash and cash equivalents		175,349	595,762
<b>Cash and cash equivalents at 31 December</b>	4	<b>9,266,385</b>	<b>9,540,517</b>

The accompanying notes form an integral part of these separate financial statements.



## **TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### **1. ACTIVITIES OF THE BANK**

Türkiye İş Bankası A.Ş. ("the Bank") was incorporated in Turkey in 1924. The Bank provides private, retail, commercial and corporate banking, money market and securities market operations as well as international banking services. The bank now operates a nationwide network of 1,333 (31 December 2013: 1,289) branches, 6,290 ATMs (31 December 2013: 5,673 ATMs), 9 foreign branches in London, in Bahrain, in Erbil, in Batumi and in Pristina, in Tiflis, in Prizren, in Bağdat, 16 branches in the Turkish Republic of Northern Cyprus and two banking subsidiaries in Germany and Russia. The Bank invests in equity participations of 25 companies operating mainly in industry and the financial sector.

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### **2. BASIS OF PREPARATION**

#### **2.1 Statement of Compliance**

The accompanying separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB") except IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures.

The Bank maintains its book of accounts and prepares its 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 separate financial statements are presented in Turkish Lira (TL), which is the Bank's functional currency. For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made, which mainly comprise the effects of deferred taxation and reserve for impairment of loans.

#### **2.2 Basis of Measurement**

These financial statements have been prepared under the historical cost basis except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- the liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

## **TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### **2. BASIS OF PREPARATION (continued)**

#### **2.3 Functional and Presentation Currency**

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

#### **2.4 Use of Estimates and Judgements**

The preparation of the separate financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the statement of comprehensive income and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years 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 separate financial statements is included in the following notes:

- Note 9 – loans and advances to customers
- Note 10 – investment in equity participations
- Note 12 – property and equipment
- Note 13 – intangible assets
- Note 17 – funds borrowed
- Note 19 – income taxes
- Note 20 – provisions
- Note 28 – commitments and contingencies
- Note 30 – risk management

#### **2.5 Reclassification of Comparative Information**

If the presentation or classification of the financial statements is changed during the year, in order to maintain consistency, financial statements of prior periods are also reclassified in line with the related changes.

## TÜRKİYE İŞ BANKASI A.Ş.

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### 3. ACCOUNTING POLICIES

The principal accounting policies adopted for the financial statements are as follows:

#### 3.1 Foreign Currency

##### a) Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Bank enters into forward contracts, swaps and options (see below for details of the Bank's accounting policies in respect of such derivative financial instruments).

##### b) Foreign operations

For the purpose of presenting the accompanying separate financial statements, the assets and liabilities of the Bank's foreign branches are expressed in TL using exchange rates prevailing on the reporting date. Income and expenses of foreign branches are translated on a transactional basis. The exchange rate at the dates of transaction is used to translate the income and expense in to the Turkish Lira.

Foreign currency differences are recognised in other comprehensive income.

The separate financial statements are presented in TL, which is the functional currency of the Bank.

As at 31 December 2014 and 31 December 2013 foreign currency assets and liabilities of the Bank are mainly in US Dollar, Euro and GBP. The TL/US Dollar, TL/Euro and TL/GBP exchange rates as at 31 December 2014 and for the year ended 31 December 2013 are as follows:

	31 December 2014		31 December 2013	
	Year end	Average	Year end	Average
1 US Dollar	2.3140	2.1521	2.1125	1.8843
1 Euro	2.7999	2.8557	2.9068	2.5032
1 GBP	3.6052	3.5425	3.4856	2.9490

## **TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### **3. ACCOUNTING POLICIES (continued)**

#### **3.2 Interest**

Interest income and expenses are recognised in profit or loss for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but not future credit losses.

The calculation of the effective interest rate 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. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income on overdue loans is recognised on a cash basis when collected.

#### **3.3 Fee and Commission**

Fee and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Other fees and commission income, including portfolio fees, management advisory fees, service fees and asset management fees related to investment funds are recognised on a straight-line basis over the service period.

#### **3.4 Net Trading Income**

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of available for sale securities.

#### **3.5 Dividends**

Dividend income from investments is recognised when the right to receive income has been established.

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.6 Financial Assets and Financial Liabilities**

##### **3.6.1 Recognition**

Financial assets and financial liabilities are recognised on the Bank's separate statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

##### **3.6.2 Derecognition**

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

The Bank derecognises financial liabilities when its contractual obligations are discharged or cancelled or expire.

##### **3.6.3 Offsetting**

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

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

##### **3.6.4 Amortised Cost Measurement**

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

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.6 Financial Assets and Financial Liabilities (continued)**

##### **3.6.5 Fair Value Measurement**

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted at amortised cost but disclosure is required of fair value for comparison purposes, wherever practicable.

Due to economic conditions and volatility or low trading volumes in markets, the Bank may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparisons with similar financial instruments that do have active markets. As there are wide ranges of valuation techniques, it may be inappropriate to compare the Bank's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would not differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.

Securities investments: Fair value is estimated using quoted market prices wherever applicable.

Derivatives: Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.6 Financial Assets and Financial Liabilities (continued)**

##### **3.6.5 Fair Value Measurement (continued)**

Changes in assumptions about these factors could affect reported fair value of financial instruments.

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency swap transactions are determined by comparing forward rates with contractual forward rates discounted to the reporting date with the current market rates. The resulting gain or loss is reflected to the statement of comprehensive income. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and repricing date are used. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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

The major portions of loans are short-term and have interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with the prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

Securities under repurchase agreements: The carrying amount is a reasonable estimate of fair value.

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.6 Financial Assets and Financial Liabilities (continued)**

##### **3.6.6 Identification and Measurement of Impairment**

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

##### **a) Assets carried at amortised cost**

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

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

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

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



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### **3. ACCOUNTING POLICIES (continued)**

#### **3.6 Financial Assets and Financial Liabilities (continued)**

##### **3.6.6 Identification and Measurement of Impairment (continued)**

###### **a) Assets carried at amortised cost (continued)**

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 group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Banks of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

###### **b) Assets carried at cost**

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

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.6 Financial Assets and Financial Liabilities (continued)**

##### **3.6.6 Identification and Measurement of Impairment (continued)**

###### **c) *Assets carried at fair value***

Available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available for sale are not reversed through statement of comprehensive income.

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

#### **3.7 Cash and Cash Equivalents**

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

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

#### **3.8 Trading Assets and Liabilities**

Trading assets and 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. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the separate statement of financial position with transaction costs taken directly to separate statement of comprehensive income. All changes in fair value are recognised as part of net trading income in separate statement of comprehensive income. The Bank did not reclassify any trading assets and liabilities subsequent to their initial recognition.

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.9 Loans and Advances**

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

#### **3.10 Investment Securities**

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

##### **3.10.1 Held to Maturity Investments**

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

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

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

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

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.10 Investment Securities (continued)**

##### **3.10.2 Available for Sale Financial Assets**

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

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

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

#### **3.11 Investments in Equity Participations**

In the accompanying financial statements, equity participations are accounted as securities available for sale, in accordance with IAS 39, and are accounted for using the policy set out in above. In cases where there is evidence of permanent impairment in value, recorded amounts are reduced by a provision for such impairment, charged to the separate statement of comprehensive income.

#### **3.12 Repurchase and Resale Transactions**

The Bank enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognised in the separate statement of financial position 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 obligations under repurchase agreements. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using the effective interest method.

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.13 Commitments and Contingencies**

The Bank deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, pre-financing loans, etc. The Bank's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

#### **3.14 Derivative Financial Instruments**

The Bank's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. In the normal course of business, the Bank enters into a variety of derivative transactions principally in the foreign exchange and interest rate markets. These are used to provide financial services to customers and to actively, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the statement of financial position from a variety of activities including placements, lending and securities investment. These transactions do not qualify for hedge accounting under the relevant provisions of IAS 39 "Financial Instruments Recognition and Measurement" and they are treated as derivatives held for trading. The majority of the counterparties in the Bank's derivative transactions are banks and other financial institutions.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting date. All unrealised gains and losses on these instruments are included in the statement of comprehensive income.

#### **3.15 Property and Equipment**

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

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

Buildings were valued at expert assessments of their value, made by independent valuation specialists. Where these values are below indexed cost, a provision was made (charged against statement of comprehensive income) to reduce the carrying amount to the valuation.

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

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.15 Property and Equipment (continued)**

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

##### **a) Subsequent costs**

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

##### **b) Depreciation**

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

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

▪ buildings	4 - 50 years
▪ vehicles	5 years
▪ other tangible assets	2 - 50 years

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

##### **c) Derecognition**

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

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.16 Intangible Assets**

Intangible assets acquired separately from a business are capitalised at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

There is no impairment recorded related to intangible assets. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The Bank amortises its intangible assets consisting primarily of software on a straight-line basis over the estimated useful lives of 1 to 3 years. There are no intangible assets with indefinite useful lives.

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

#### **3.17 Non-current Assets Held for Sale**

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

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

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.18 Leases**

##### **The Bank as Lessee**

##### **a) Operating leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the separate 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 lessor by way of penalty is recognised as an expense in the period in which termination takes place.

##### **b) Finance leases**

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

Assets held under finance leases are recognised as assets of the Bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the separate statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the separate statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each reporting period.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

#### **3.19 Impairment of Non-financial Assets**

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the separate statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.



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### **3. ACCOUNTING POLICIES (continued)**

#### **3.19 Impairment of Non-financial Assets (continued)**

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

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

#### **3.20 Provisions**

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

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

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

#### **3.21 Employee Benefits**

##### **a) Pension and other post-retirement obligations**

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

##### **b) Pension fund transferable to Social Security Institution**

Türkiye İş Bankası A.Ş. Mensupları Emekli Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognised by an official decree, providing all qualified Bank employees with pension and post-retirement benefits.

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.21 Employee Benefits (continued)**

##### **b) Pension fund transferable to Social Security Institution (continued)**

As explained in Note 20, the Bank expects to transfer the obligation of the Fund to Social Security Institution. This transfer will be a settlement of the Fund's obligation. Final legislation establishing the terms for such transfer was enacted on 8 May 2008. Although the settlement will not be recognised until the transfer is made, the Bank believes that it is more appropriate to measure the obligation at 31 December 2014 as the value of the payment that would need to be made to Social Security Institution to settle the obligation at the date of the statement of financial position in accordance with the new law "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees". The pension disclosures set out in Note 20, therefore reflect the actuarial assumptions and mortality tables specified in the new law, including a discount rate of 9.8%. The pension benefits transferable to Social Security Institution are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury. According to revised IAS 19, the actuarial gains and losses occurred after 1 January 2014 is recognized under equity.

##### **c) Employment termination benefits**

In accordance with the existing labour law in Turkey and union agreements, the Bank is required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the separate financial statements on a current basis. The management of the Bank used some assumptions (detailed in Note 20) in the calculation of the retirement pay provision.

#### **3.22 Taxation and Deferred Taxes**

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

##### **a) Current tax**

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

## **TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

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

### **3. ACCOUNTING POLICIES (continued)**

#### **3.22 Taxation and Deferred Taxes (continued)**

##### **b) Deferred tax**

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

Deferred tax liabilities are recognised for taxable temporary differences, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

##### **c) Current and deferred tax for the year**

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

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

### **3. ACCOUNTING POLICIES (continued)**

#### **3.23 Business and Geographical Segments**

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

##### **a) Business segments**

The Bank's operations are classified as corporate, commercial, retail and private banking, as well as treasury/investment banking. The Bank provides services to the large corporations, SMEs and other trading companies (excluding real trading individuals) within the course of its corporate and commercial operations through various financial media. Services such as project financing, operating and investment loans, deposit and cash management, credit cards, cheques and bills, foreign trade transactions and financing, letter of guarantee, letter of credit, forfeiting, foreign currency trading, bill collections, payrolls, investment accounts, tax collections and other banking services are being provided for the aforementioned customer segments.

Services are being provided to individuals, individual merchants and non-commercial corporations and institutions within the context of "Retail Banking". The requirements of this customer segment are met by performing banking services such as deposits, consumer loans, overdraft accounts, credit cards, bill collections, remittances, foreign currency trading, safe-deposit boxes, insurance, tax collections, investment accounts and by other banking services. For the private banking category, any kind of financial and cash management services are provided for individuals within the high-income group.

Within the context of treasury transactions, medium and long term funding is being fulfilled by tools such as security trading, money market transactions, spot and instalment based TL and foreign currency trading, and derivative transactions such as forward, swap, futures and options, as well as syndication and securitisation.

##### **b) Geographical segments**

The Bank's operations are mainly located in Turkey. The results of the members of the Bank outside Turkey are not material in the accompanying financial statements.

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### **3. ACCOUNTING POLICIES (continued)**

#### **3.24 New Standards and Interpretations not yet Adopted**

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

##### ***IFRS 9 Financial Instruments (2014)***

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

Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in a change in the overall level of impairment allowances. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

##### **Improvements to IFRSs**

The IASB issued Annual Improvements to IFRSs - 2012-2014 Cycle. The amendments are effective as of 1 January 2016. Earlier application is permitted. The Bank does not expect that these amendments will have significant impact on the financial position or performance.

##### ***Annual Improvements to IFRSs - 2012-2014 Cycle***

##### ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***

The amendments clarify the requirements of IFRS 5 when an entity changes the method of disposal of an asset (or disposal group) and no longer meets the criteria to be classified as held-for-distribution.

##### ***IFRS 7 Financial Instruments: Disclosures***

IFRS 7 is amended to clarify when servicing arrangement are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. IFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*.

##### ***IAS 19 Employee Benefits***

IAS 19 has been amended to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

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Notes to the Separate Financial Statements

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

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

#### **3.35 New standards and interpretations not yet adopted (continued)**

##### ***IAS 34 Interim Financial Reporting***

IAS 34 has been amended to clarify that certain disclosure, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" – i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report).

##### ***IFRS 14 Regulatory Deferral Accounts***

IASB has started a comprehensive project for Rate Regulated Activities in 2012. As part of the project, IASB published an interim standard to ease the transition to IFRS for rate regulated entities. The standard permits first time adopters of IFRS to continue using previous GAAP to account for regulatory deferral account balances. The interim standard is effective for financial reporting periods beginning on or after 1 January 2016, although early adoption is permitted. The Bank does not expect that these amendments will have significant impact on the financial position.

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

Amendments, is effective for 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.

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

Amendments is effective for annual periods beginning on or after 1 January 2016. In this amendment the IASB 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.

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

IFRS 15, "Revenue from contracts with customers", is effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The new model employs an asset and liability approach, rather than current revenue guidance focuses on an 'earnings process'

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***4. CASH AND CASH EQUIVALENTS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Cash balances – Turkish Lira	1,623,807	1,338,201
Cash balances – Foreign Currency	877,935	814,128
Precious metal	-	-
Other	15	6
<b>Total cash and cash equivalents</b>	<b>2,501,757</b>	<b>2,152,335</b>

  

	<b>31 December 2014</b>	<b>31 December 2013</b>
Cash and cash equivalents	2,501,757	2,152,335
Loans and advances to banks (with original maturity of less than 3 months)	1,037,403	1,386,845
Unrestricted balances with the Central Bank	5,727,225	6,001,337
Money market placements	-	-
<b>Total for cash flow purpose</b>	<b>9,266,385</b>	<b>9,540,517</b>

**5. BALANCES WITH THE CENTRAL BANK**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Demand deposits – Turkish Lira	3,106,863	3,884,914
Demand deposits – Foreign currency	2,624,020	2,116,423
<b>Total unrestricted balances with the Central Bank</b>	<b>5,730,883</b>	<b>6,001,337</b>
Reserve deposits – Foreign currency	16,318,665	14,806,381
<b>Total balances with the Central Bank</b>	<b>22,049,548</b>	<b>20,807,718</b>

According to The Communiqué On Reserve Requirements, No. 2013/15 based on Article 40-II of The Law on the Central Bank of the Republic of Turkey No.1211 as amended by Banking Law No. 5411, dated 19 October 2005, banks are obliged to maintain required reserves at the Central Bank for their liabilities. Deposits subject to reserve requirement include the deposits of real and legal persons, interbank deposits (excluding domestic interbank deposits) and the deposits collected in Turkey by the banks on behalf of their branches abroad. In accordance with the related communique, Central Bank of Turkey pay interest TL reserves, however do not pay interest foreign currency reserves.

Reserve deposits represent the minimum deposits maintained within the Central Bank of Turkey calculated on the basis of the TL and foreign currency liabilities taken, at the rates determined by the Central Bank of Turkey. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 5%-11.5% for TL deposits and other liabilities, between 9%-13% for foreign currency deposits and between 6%-13% for other foreign currency liabilities.

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***6. LOANS AND ADVANCES TO BANKS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
DOMESTIC BANKS		
Demand deposits – Turkish Lira	36	14
Demand deposits – Foreign currency	-	15,140
Time deposits – Turkish Lira	46,019	15,324
Time deposits – Foreign currency	235,798	519,678
	<b>281,853</b>	<b>550,156</b>
FOREIGN BANKS		
Demand deposits – Turkish Lira	85,863	99,864
Demand deposits – Foreign currency	588,443	537,300
Time deposits – Foreign currency	437,062	340,290
	<b>1,111,368</b>	<b>977,454</b>
Placements at money markets	-	-
<b>Total loans and advances to banks</b>	<b>1,393,221</b>	<b>1,527,610</b>

For cash flow purposes, the bank balances having original maturity of less than 3 months were classified as cash and cash equivalents. These balances are amounting to TL 1,037,403 as at 31 December 2014 (31 December 2013: TL 1,386,845).

All the time deposits above are short-term and mature within one year. The foreign currency short-term time deposits earn interest at rates ranging from 0.15% to 13.41% per annum.

Deposits include TL 85,136 placements and TL 86,801 reserve deposits in the Central Bank of Turkish Republic of Northern Cyprus.



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

**7. INVESTMENT SECURITIES**

	31 December 2014			31 December 2013		
	Cost	Accrued Interest/Fair Value Difference	Carrying Value	Cost	Accrued Interest/Fair Value Difference	Carrying Value
<i>a) Trading Investment Securities</i>						
Government bonds in TL	14,186	181	14,367	66,223	1,428	67,651
Corporate bonds	880	12	892	1,086	5	1,091
Treasury bills in TL	-	-	-	-	-	-
Government bonds in FC	-	-	-	-	-	-
Eurobonds	9,977	278	10,255	5,869	32	5,901
Repurchase Agreements	236,650	2,782	239,432	794,752	21,588	816,340
Equity shares	-	-	-	2	-	2
	<b>261,693</b>	<b>3,253</b>	<b>264,946</b>	<b>867,932</b>	<b>23,053</b>	<b>890,985</b>
<i>b) Available for Sale Investment Securities</i>						
Government bonds in TL	16,791,359	712,062	17,503,421	9,031,861	244,977	9,276,838
Government bonds in FC	-	-	-	-	-	-
Treasury bills in TL	-	-	-	-	-	-
Eurobonds	2,286,167	96,851	2,383,018	1,678,158	30,906	1,709,064
Corporate bonds	785,356	6,619	791,975	662,442	5,943	668,385
Repurchase agreements	17,367,167	1,044,640	18,411,807	16,223,492	397,964	16,621,456
Investment funds participation certificates	165,789	36	165,825	44,002	-	44,002
	<b>37,395,838</b>	<b>1,860,208</b>	<b>39,256,046</b>	<b>27,639,955</b>	<b>679,790</b>	<b>28,319,745</b>
<i>c) Held to Maturity Investment Securities</i>						
Government bonds in TL	859,985	17,544	877,529	1,829,226	281,896	2,111,122
Repurchase agreements	342,532	6,381	348,913	4,386,804	1,105,890	5,492,694
Foreign governments bonds in FC	50,817	190	51,007	15,657	41	15,698
Foreign governments bonds in TL	23,243	412	23,655	7,729	205	7,934
	<b>1,276,577</b>	<b>24,527</b>	<b>1,301,104</b>	<b>6,239,416</b>	<b>1,388,032</b>	<b>7,627,448</b>
	<b>38,934,108</b>	<b>1,887,988</b>	<b>40,822,096</b>	<b>34,747,303</b>	<b>2,090,875</b>	<b>36,838,178</b>

Carrying value of investment securities given as collateral under repurchase agreements is TL 19,000,152. Related liabilities are disclosed in note 16.

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***7. INVESTMENT SECURITIES (continued)**

The book value of TL Government bonds and Treasury bills can be compared to fair value at 31 December 2014 and 31 December 2013 as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Government bonds and treasury bills	17,665,530	10,927,310
Accrued interest	<u>729,787</u>	<u>528,301</u>
Total book value	18,395,317	11,455,611
Fair value of above securities	18,747,402	17,053,563

Interest rates on government bonds and treasury bills with fixed interest rates vary between 3.17%-10.95% (31 December 2013: 5.76%-9.97%).

Foreign currency securities are mainly Republic of Turkey bonds denominated in US Dollar and Euro. Interest rates vary between 0.98%-7.60% for US Dollar and 0.59%-5.49% for Euro. The maturities range from 2015 to 2045.

The following table summarises securities that were deposited as collaterals with respect to various banking transactions:

	<u>31 December 2014</u>		<u>31 December 2013</u>	
	<u>Nominal Value</u>	<u>Carrying Amount</u>	<u>Nominal Value</u>	<u>Carrying Amount</u>
Liquidity Requirement:				
Interbank market	21,000	21,074	21,000	21,562
Foreign currency market	20,000	20,071	20,000	20,535
Borsa Istanbul	152,000	192,240	832,750	893,710
CBRT guarantee	95,769	128,548	132,764	175,140
Derivatives exchange market	11,960	12,002	12,000	12,321
Guarantee given borrowing funding loans	5,816,515	6,065,789	2,096,679	2,090,837
Guarantee given for Export Finance Intermediary Loan (EFIL)	<u>1,717,062</u>	<u>2,019,957</u>	<u>1,270,464</u>	<u>1,375,873</u>
	<u><b>7,834,306</b></u>	<u><b>8,459,681</b></u>	<u><b>4,385,657</b></u>	<u><b>4,589,978</b></u>

The Bank has not made reclassification between investment securities portfolio as at 31 December 2014 and 31 December 2013.

The movement in available-for-sale investment securities is summarised as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Balance at 1 January	28,319,745	26,331,819
Additions	19,137,734	11,765,534
Disposals (sale and redemption)	(10,760,112)	(8,612,748)
Change in interest accrual	2,388,777	(2,322,202)
Exchange rate differences	<u>169,902</u>	<u>1,157,342</u>
<b>Balance at 31 December</b>	<u><b>39,256,046</b></u>	<u><b>28,319,745</b></u>

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

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The Bank's derivative transactions are predominantly foreign currency and interest rate swaps, currency options and forward currency transactions.

	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Fair value assets</b>	<b>Fair value liabilities</b>
<b>Derivatives held-for-trading:</b>				
Forward foreign exchange contracts	56,250	56,307	117,467	174,216
Currency swaps	304,526	237,880	560,123	371,516
Interest rate swaps	158,780	200,024	173,181	220,288
Currency options	45,635	49,223	113,919	122,317
Interest rate options	1,092	1,120	3,401	3,446
Cross currency swaps	382,132	73,114	341,349	86,887
Commodity swaps	11,618	11,409	3,133	2,852
Other swaps	13,276	1,074	-	-
	<b>973,309</b>	<b>630,151</b>	<b>1,312,573</b>	<b>981,522</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***9. LOANS AND ADVANCES TO CUSTOMERS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Short Term Loans</b>		
Discount and purchase bills	22,633	25,521
Export loans non-guaranteed	430,016	784,500
Guaranteed export loans	4,743,236	4,222,591
Other loans non-guaranteed	12,498,010	12,923,470
Other guaranteed loans	19,326,301	17,232,931
Loans given to financial sector	1,922,873	2,598,577
Loans given to foreign institutions	422,443	480,246
Domestic precious metals loan	149,263	66,156
Indemnified non cash loans	12,633	9,253
	<b>39,527,408</b>	<b>38,343,245</b>
<b>Medium and Long Term Loans</b>		
Guaranteed other investment and operating loans	85,588,279	72,030,151
Non-guaranteed loans	25,205,204	20,135,896
Loans given to financial sector	1,018,739	595,697
Loans given to foreign institutions	1,582,706	1,370,432
	<b>113,394,928</b>	<b>94,132,176</b>
Interest accrual	1,890,261	1,876,178
<b>Total Performing Loans</b>	<b>154,812,597</b>	<b>134,351,599</b>
Non-performing loans	2,433,358	2,244,653
<b>Total Loans</b>	<b>157,245,955</b>	<b>136,596,252</b>
<i>Less: Specific reserve for impairment</i>	(1,376,463)	(1,243,153)
<i>Less: Portfolio reserve for impairment</i>	(1,446,066)	(1,190,252)
<b>Total Loans</b>	<b>154,423,426</b>	<b>134,162,847</b>
	<b>31 December 2014</b>	<b>31 December 2013</b>
Movements in the non-performing loans:		
As at 1 January	2,244,653	2,040,442
Additions to non-performing loans	1,724,687	1,558,587
Recoveries	(1,144,126)	(1,134,803)
Loans written-off during the year	(391,856)	(219,573)
Non-performing loans at the end of the year	<b>2,433,358</b>	<b>2,244,653</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***9. LOANS AND ADVANCES TO CUSTOMERS (continued)**

Movements in the reserve for possible loan losses:	<u>2014</u>	<u>2013</u>
As at 1 January	2,433,405	2,296,897
Provision set during the year	921,137	839,904
Collection and recoveries	(168,876)	(585,488)
Transfer from other provision accounts	-	-
Effect of change in foreign exchange rate	8,047	15,183
Loans written-off during the year(*)	(371,184)	(133,091)
Reserve at the end of the year	<u>2,822,529</u>	<u>2,433,405</u>

(\*) In the current period, a portion of non-performing loans sold to Efes Varlık Yönetim A.Ş. and Girişim Varlık Yönetim A.Ş.

Set out below is an analysis of loans by sectoral distribution:

**a) Performing Cash Loans**

	<u>31 December 2014</u>		<u>31 December 2013</u>	
	<u>Amount</u>	<u>(%)</u>	<u>Amount</u>	<u>(%)</u>
Agricultural	1,645,675	1.07	1,758,117	1.31
Farming and raising livestock	1,295,051	0.84	1,253,469	0.93
Forestry	121,456	0.08	211,338	0.16
Fishing	229,168	0.15	293,310	0.22
Industry	40,534,536	26.18	33,747,676	25.12
Mining	2,236,108	1.44	1,149,539	0.86
Production	25,584,105	16.53	23,780,980	17.70
Electric, gas, and water	12,714,323	8.21	8,817,157	6.56
Construction	13,120,709	8.48	9,900,476	7.37
Services	53,970,293	34.87	48,025,823	35.75
Wholesale and retail trade	23,010,753	14.86	19,979,947	14.87
Hotel, food and beverage services	4,411,555	2.85	3,566,214	2.65
Transportation and telecommunication	9,342,745	6.03	8,462,787	6.30
Financial institutions	4,931,843	3.19	4,791,189	3.57
Real estate and renting services	7,922,314	5.12	6,788,172	5.05
Self-employment services	2,317,181	1.50	2,801,422	2.09
Education services	844,150	0.55	713,798	0.53
Health and social services	1,189,752	0.77	922,294	0.69
Other (*)	45,541,384	29.40	40,919,507	30.46
	<u>154,812,597</u>	<u>100.00</u>	<u>134,351,599</u>	<u>100.00</u>

(\*) Interest income accruals are included in the "Other" item above.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***9. LOANS AND ADVANCES TO CUSTOMERS (continued)****b) Non-Cash Loans**

	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Amount</b>	<b>(%)</b>	<b>Amount</b>	<b>(%)</b>
Agricultural	153,339	0.35	158,210	0.42
Farming and raising livestock	99,237	0.23	99,343	0.26
Forestry	49,182	0.11	54,595	0.14
Fishing	4,920	0.01	4,272	0.01
Industry	18,554,112	43.33	17,349,567	45.64
Mining	399,292	0.93	216,086	0.57
Production	12,082,367	28.22	11,868,656	31.22
Electric, gas, and water	6,072,453	14.18	5,264,825	13.85
Construction	6,290,091	14.69	5,746,551	15.12
Services	16,006,940	37.38	12,296,522	32.35
Wholesale and retail trade	8,704,998	20.33	6,779,143	17.83
Hotel, food and beverage services	235,853	0.55	183,318	0.48
Transportation and telecommunication	1,834,080	4.28	1,947,666	5.12
Financial institutions	3,056,221	7.14	1,303,941	3.43
Real estate and renting services	1,382,843	3.23	1,254,728	3.30
Self-employment services	548,224	1.28	640,546	1.69
Education services	28,940	0.07	27,320	0.07
Health and social services	215,781	0.50	159,860	0.42
Other	1,810,691	4.25	2,461,264	6.47
<b>Total</b>	<b>42,815,173</b>	<b>100.00</b>	<b>38,012,114</b>	<b>100.00</b>

## TÜRKİYE İŞ BANKASI A.Ş.

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### 10. INVESTMENTS IN EQUITY PARTICIPATIONS

	<u>Indirect Participation Rate (%)</u>	<u>Direct Participation Rate (%)</u>	<u>31 December 2014 Cost / Market Value</u>	<u>Indirect Participation Rate (%)</u>	<u>Direct Participation Rate (%)</u>	<u>31 December 2013 Cost / Market Value</u>
<b>GLASS INDUSTRY</b>						
T.Şişe ve Cam Fab. A.Ş.	65.51	65.47	4,029,140	65.51	65.47	2,756,550
<b>INSURANCE COMPANIES</b>						
Milli Reasürans T.A.Ş. (*)	76.75	76.64	483,732	76.75	76.64	449,245
Anadolu Hayat Emeklilik A.Ş.	72.45	62.00	1,210,984	72.45	62.00	1,143,590
<b>BANKS</b>						
Arap-Türk Bankası A.Ş. (*)	20.58	20.58	124,575	20.58	20.58	85,295
CJSC Isbank(*)	100.00	100.00	130,366	100.00	100.00	130,366
İşbank AG (*)	100.00	100.00	285,945	100.00	100.00	285,945
Türkiye Sınai Kalkınma Bankası A.Ş.	48.85	40.52	1,227,674	48.85	40.52	953,372
<b>FINANCIAL INSTITUTIONS</b>						
İş Finansal Kiralama A.Ş.	42.72	27.79	121,857	42.72	27.79	112,051
İş Yatırım Menkul Değerler A.Ş.	67.93	65.65	250,663	67.93	65.65	260,931
İş Gayrimenkul Yat. Ortaklığı A.Ş.	53.10	42.23	410,934	53.10	42.23	359,208
Bankalararası Kart Merkezi A.Ş. (*)	9.98	9.98	1,986	9.98	9.98	1,986
Kredi Kayıt Bürosu A.Ş. (*)	9.09	9.09	1,685	9.09	9.09	1,685
<b>OTHERS</b>						
İş Net Elekt., Bilgi Ür. Dağ. Tic. ve İl. Hiz. A.Ş. (*)	98.10	94.65	39,119	98.10	94.65	39,119
Avea İletişim Hizmetleri A.Ş. (*)	9.22	7.44	813,950	9.22	7.44	813,950
Camiş Yatırım Holding A.Ş. (*)	100.00	99.97	123,462	100.00	99.97	88,472
Trakya Yatırım Holding A.Ş. (*)	88.05	65.34	284,713	88.05	65.34	284,713
Nemtaş Nemrut Liman İşletmeleri A.Ş. (*)	100.00	99.81	431,369	99.92	99.81	331,556
İş Merkezleri Yönetim ve İletişim A.Ş. (*)	99.31	86.33	1,696	99.31	86.33	1,696
Kültür Yayınları İş-Türk Ltd Şti (*)	99.57	99.17	5,556	99.57	99.17	5,556
<b>OTHER</b>			<u>33,915</u>			<u>28,086</u>
Specific allowance for impairment against investments in equity participations			<u>(354,434)</u>			<u>(354,434)</u>
			<u><b>9,658,887</b></u>			<u><b>7,778,938</b></u>

(\*) These investments in equity participations do not have a quoted market price in an active market. Since other methods to reasonably estimate their values would be inappropriate and impractical, they are stated at cost, restated for the effects of inflation in TL units current at 31 December 2005.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***10. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)**

There are not any additional impairment losses for the investment in equity participations as at 31 December 2014, The specific allowance for impairment against investments in equity participations comprised the following:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Trakya Yatırım Holding A.Ş.	184,972	184,972
Avea İletişim Hizmetleri A.Ş.	159,001	159,001
Antgıda Gıda Tarım Turizm En. ve Demir Çelik San. Tic. A.Ş.	-	-
Bayek Tedavi Sağlık Hiz. ve İşletmeciliği A.Ş.	-	-
Mipaş Mümessillik İthalat İhracaat ve Paz. A.Ş.	-	-
Other	10,461	10,461
<b>Total</b>	<b>354,434</b>	<b>354,434</b>

**11. NON-CURRENT ASSETS HELD FOR SALE**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Balance at 1 January	72,557	72,970
Additions	1,602	10,038
Disposals	(99,428)	(60,893)
Transfers	87,538	51,583
Depreciation	(1,908)	(1,141)
<b>Balance at 31 December</b>	<b>60,361</b>	<b>72,557</b>

The Bank's assets classified as assets held for sale comprises real estates acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. The related real estates subject to sale are announced on the Bank's website. Announcements are made by using newspaper ads and similar media.



**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***12. PROPERTY AND EQUIPMENT**

	<b>Land</b>	<b>Buildings</b>	<b>Vehicles</b>	<b>Other fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<u>Cost</u>						
Balance at 1 January 2014	226,610	2,842,192	15,137	1,672,804	12,161	4,768,904
Additions	149,167	122,791	944	224,905	27,852	525,659
Disposals	(29,642)	(242,637)	(774)	(44,583)	-	(317,636)
(Impairment) / reversal	(393)	128,833	-	(9)	-	128,431
Exchange rate difference	-	-	12	451	-	463
Transfers	(1,094)	(68,416)	-	-	(18,028)	(87,538)
<b>Balance at 31 December 2014</b>	<b>344,648</b>	<b>2,782,763</b>	<b>15,319</b>	<b>1,853,568</b>	<b>21,985</b>	<b>5,018,283</b>
<u>Depreciation</u>						
Balance at 1 January 2014	-	(1,836,574)	(11,534)	(1,089,190)	-	(2,937,298)
Depreciation for the year	-	(45,080)	(1,047)	(175,568)	-	(221,695)
Impairment	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Exchange rate difference	-	-	(9)	(293)	-	(302)
Disposals	-	25,211	750	16,841	-	42,802
<b>Balance at 31 December 2014</b>	<b>-</b>	<b>(1,856,443)</b>	<b>(11,840)</b>	<b>(1,248,210)</b>	<b>-</b>	<b>(3,116,493)</b>
<b>Carrying amounts at 31 December 2014</b>	<b>344,648</b>	<b>926,320</b>	<b>3,479</b>	<b>605,358</b>	<b>21,985</b>	<b>1,901,790</b>

As at 31 December 2014, the carrying amount of the Bank's property and equipment includes assets purchased through finance lease amounting to TL 40 (31 December 2013: TL 57). The Bank does not purchase assets through finance lease in the current period. The current period additions include property and equipment obtained as collection from non-performing loans amounting to TL 208,252 (31 December 2013: TL 170,421). Total impairment losses on fixed assets to TL 42,561 (31 December 2013: TL 210,031).

There were no capitalised borrowing costs related to the acquisition of property and equipment during the current year (31 December 2013: None).

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***12. PROPERTY AND EQUIPMENT (continued)**

	<b>Land</b>	<b>Buildings</b>	<b>Vehicles</b>	<b>Other fixed assets</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>						
Balance at 1 January 2013	148,871	2,984,755	13,538	1,489,099	5,624	4,641,887
Additions	38,414	116,752	2,597	205,923	13,219	376,905
Disposals	(14,535)	(205,762)	(1,023)	(24,068)	(420)	(245,808)
(Impairment) / reversal	45,628	-	-	-	-	45,628
Exchange rate difference	-	-	25	1,850	-	1,875
Transfers	8,232	(53,553)	-	-	(6,262)	(51,583)
<b>Balance at 31 December 2013</b>	<b>226,610</b>	<b>2,842,192</b>	<b>15,137</b>	<b>1,672,804</b>	<b>12,161</b>	<b>4,768,904</b>
<b>Depreciation</b>						
Balance at 1 January 2013	-	(1,866,385)	(11,280)	(943,314)	-	(2,820,979)
Depreciation for the year	-	(46,925)	(1,214)	(157,777)	-	(205,916)
Impairment	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Exchange rate difference	-	-	(17)	(1,012)	-	(1,029)
Disposals	-	76,736	977	12,913	-	90,626
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>(1,836,574)</b>	<b>(11,534)</b>	<b>(1,089,190)</b>	<b>-</b>	<b>(2,937,298)</b>
<b>Carrying amounts at 31 December 2013</b>	<b>226,610</b>	<b>1,005,618</b>	<b>3,603</b>	<b>583,614</b>	<b>12,161</b>	<b>1,831,606</b>

As at 31 December 2013, the carrying amount of the Bank's property and equipment includes assets purchased through finance lease amounting to TL 57 (31 December 2012: TL 466). The Bank does not purchase assets through finance lease in the current period. The current period additions include property and equipment obtained as collection from non-performing loans amounting to TL 170,421 (31 December 2012: TL 159,137). Total impairment losses on fixed assets to TL 210,031 (31 December 2013: TL 210,031).

There were no capitalised borrowing costs related to the acquisition of property and equipment during the current year (31 December 2012: None).

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***13. INTANGIBLE ASSETS**

Intangible assets comprise softwares, The movements in intangible assets and related accumulated amortisation during the year ended 31 December were as follows:

	<b>31 December 2014</b>	<b>31 December 2013</b>
<u>Cost</u>		
Balance at 1 January	539,978	366,663
Additions	197,115	193,377
Exchange rate difference	34	-
Disposals	(1,434)	(20,062)
<b>Balance at 31 December</b>	<b>735,693</b>	<b>539,978</b>
<u>Amortisation</u>		
Balance at 1 January	(344,019)	(261,756)
Additions	(117,555)	(95,708)
Exchange rate difference	(12)	-
Disposals	-	13,445
<b>Balance at 31 December</b>	<b>(461,586)</b>	<b>(344,019)</b>
<b>Carrying amounts at 31 December</b>	<b>274,107</b>	<b>195,959</b>

There were no capitalised borrowing costs related to the acquisition of software during the year (31 December 2013: None).

**14. OTHER ASSETS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Sundry debtors	902,420	1,366,737
Prepaid commission and expenses	211,059	211,088
Receivables from capital market transactions	9,773	7,375
Advances taken	6,699	3,565
Other	156,824	113,932
<b>Total</b>	<b>1,286,775</b>	<b>1,702,697</b>
	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Sundry debtors</b>		
Deposits and guarantees given	225,975	329,787
Receivables from derivative transactions	154,835	537,604
Credit card receivables	438,775	402,697
Receivables from banking services	52,817	52,631
Receivables from personnel	127	9,110
Other sundry debtors	29,891	34,908
<b>Total</b>	<b>902,420</b>	<b>1,366,737</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***15. DEPOSITS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Deposits from banks</b>		
Payable on demand	658,231	297,512
Term deposits	5,739,151	3,681,898
	<b><u>6,397,382</u></b>	<b><u>3,979,410</u></b>

As at 31 December 2014, deposits from banks include TL accounts amounting to TL 2,899,391 (31 December 2013: TL 1,293,884) and foreign currency accounts amounting to TL 3,497,991 (31 December 2013: TL 2,685,526) in total. As at 31 December 2014, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 3.50%-11.35% and 0.10%-2.70% (31 December 2013: 3.75%-9.35% and 0.06%-2.75%), respectively.

<b>Deposits from customers</b>	<b>31 December 2014</b>			<b>31 December 2013</b>
	<b>Demand</b>	<b>Term</b>	<b>Total</b>	<b>Total</b>
Foreign currency deposits	10,491,233	43,816,854	54,308,087	48,613,461
Saving deposits Commercial	8,543,512	41,498,748	50,042,260	45,374,377
deposits	6,396,826	8,184,807	14,581,633	15,268,519
Public institutions and other deposits	3,341,305	4,880,524	8,221,829	7,738,998
	<b><u>28,772,876</u></b>	<b><u>98,380,933</u></b>	<b><u>127,153,809</u></b>	<b><u>116,995,355</u></b>

As at 31 December 2014 interest rates applicable to TL deposits and foreign currency deposits vary within ranges of 1.00%-11.75% and 0.10%-4.10% (31 December 2013: 1.00%-17.50% and 0.10%-5.50%), respectively.

**16. OBLIGATIONS UNDER REPURCHASE AGREEMENTS**

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

	<b>31 December 2014</b>	<b>31 December 2013</b>
Obligations under repurchase agreements	17,696,116	20,916,278
<b>Total</b>	<b><u>17,696,116</u></b>	<b><u>20,916,278</u></b>

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2014, the maturities of the obligations varied from two days to five years (31 December 2013: two days to six years) and interest rates varied between 0.10%-11.24% (31 December 2013: 0.25%-7.75%). The underlying securities for obligations under repurchase agreements are given in Note 7.

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***17. FUNDS BORROWED**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Loans and advances from other domestic banks and institutions	633,450	641,149
Loans and advances from foreign banks and institutions	19,875,210	15,157,782
Interest accrual	148,622	111,015
<b>Total</b>	<b>20,657,282</b>	<b>15,909,946</b>

Based on days to next payments, an analysis of maturities of funds borrowed is shown below:

	<b>31 December 2014</b>			
	<b>Amount</b>		<b>Effective interest rate</b>	
	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>
<b>Short term</b>				
Fixed rate	2,320,541	2,312,856	%5-%10.82	USD %1.22-%4.59 EUR %1.54-%9.55
Floating rate	-	8,083,126	-	EUR %0.58-%3.06 USD %0.74-%3.58
<b>Long term</b>				
Fixed rate	547,000	1,252,303	%8.89	EUR %0.93-%5.36 USD %1.25-%4.70
Floating rate	-	6,141,456	-	EUR %1.35-%2.99 USD %1.10-%3.27
<b>Total</b>	<b>2,867,541</b>	<b>17,789,741</b>		
	<b>31 December 2013</b>			
	<b>Amount</b>		<b>Effective interest rate</b>	
	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>
<b>Short term</b>				
Fixed rate	1,639,022	1,191,573	%4.25-%9.46	USD %1.37-%2.41
Floating rate	-	7,704,025	-	EUR %0.61-%4.35 USD %0.41-%4.91
<b>Long term</b>				
Fixed rate	12,020	1,186,559	%5-%5.75	EUR %2.75 USD %1.27-%4.60
Floating rate	-	4,176,747	-	EUR %1.57-%5.51 USD %1.10-%3.64
<b>Total</b>	<b>1,651,042</b>	<b>14,258,904</b>		

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***17. FUNDS BORROWED (continued)**

Borrowings from foreign banks and institutions include syndicated loans, securitization loans and other borrowings. Details of syndicated loans and securitizations as at 31 December 2014 are as follows:

<b>Principal</b>	<b>Maturity</b>
\$2 Million (1)	February 2015
\$400 Million (2)	May 2015
€672 Million (2)	May 2015
\$50 Million (3)	November 2016
€27 Million (3)	November 2016
€48 Million (3)	November 2018
€40 Million (3)	November 2016
€49 Million (4)	August 2024
€73 Million (4)	August 2024
\$160 Million (4)	August 2017
\$46 Million (4)	August 2017
\$326 Million (5)	September 2015
€756 Million (5)	September 2015
\$50 Million (6)	November 2018
€60 Million (6)	November 2018
€75 Million (6)	November 2018
€50 Million (6)	November 2025
\$220 Million (7)	November 2028
\$30 Million (7)	November 2019

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***17. FUNDS BORROWED (continued)**

Details of syndicated and securitized loans as at 31 December 2013 are as follows:

<b>Principal</b>	<b>Maturity</b>
\$16 Million (1)	November 2014
\$6 Million (2)	January 2014
\$4 Million (2)	January 2014
\$13 Million (3)	May 2014
\$12 Million (3)	May 2014
\$18 Million (3)	May 2014
\$32 Million (4)	February 2015
\$5 Million (4)	February 2014
\$441 Million (5)	May 2014
€631 Million (5)	May 2014
\$75 Million (6)	November 2016
€40 Million (6)	November 2016
€60 Million (6)	November 2016
€60 Million (6)	November 2018
\$175 Million (7)	August 2017
\$50 Million (7)	August 2017
€50 Million (7)	August 2024
€75 Million (7)	August 2024
\$391 Million (8)	September 2014
€652 Million (8)	September 2014
\$50 Million (9)	November 2018
€60 Million (9)	November 2018
€75 Million (9)	November 2018
€50 Million (9)	November 2025

## **TÜRKİYE İŞ BANKASI A.Ş.**

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

### **17. FUNDS BORROWED (continued)**

(1) In November 2004, the Bank securitised all rights, title and interest to the USD, Euro or Sterling denominated payment orders created via SWIFT MT100-category messages or similar payment orders sent or delivered through foreign depository banks under a Diversified Payment Rights securitisation program ("DPR Program"). As a part of the DPR program, there are several issuances have been made since 2004. In March 2007, the Bank utilized the DPR program for the additional issuance of USD 550 million by TIB Diversified Payment Rights Finance Company (USD 400 million Series 2007-A Notes, USD 150 million Series 2007-B Notes). The interest rate of the outstanding series 2007-A is Libor + 1.84%

(2) On 9 May 2014, the Bank has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 400 million and Euro 672 million, with an optional one-year extension of maturity. Related loans have interest rates of Libor+0.5% and Euribor+0.5%

(3) In October 2011, the Bank utilized the DPR program for the additional issuance of EUR 160 million and USD 75 million by TIB Diversified Payment Rights Finance Company (USD 75 million Series 2011-A Notes, EUR 40 million Series 2011-B Notes, EUR 60 million Series 2011-C Notes, EUR 60 million Series 2011-D Notes).

(4) In June 2012, the Bank utilized the DPR program for the additional issuance of EUR 125 million and USD 225 million by TIB Diversified Payment Rights Finance Company (EUR 50 million Series 2012-A Notes, EUR 75 million Series 2012-B Notes, USD 175 million Series 2012-C Notes, USD 50 million Series 2012-D Notes).

(5) On 15 September 2014, the Bank has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 326 million and Euro 756 million, with an optional one-year extension of maturity. Related loans have interest rates of Libor+0.5% and Euribor+0.5%.

(6) In December 2013, the Bank utilized the DPR program for the additional issuance of EUR 185 million and USD 50 million by TIB Diversified Payment Rights Finance Company (USD 50 million Series 2013-A Notes, EUR 60 million Series 2013-B Notes, EUR 75 million Series 2013-C Notes, EUR 50 million Series 2013-D Notes).

(7) In December 2014, the Bank utilized the DPR program for the additional issuance of USD 220 million and USD 30 million by TIB Diversified Payment Rights (USD 220 million Series 2014-B Notes and USD 30 million Series 2014-C Notes).

(8) In November 2004, the Bank utilized the DPR program for the first issuance of USD 600 million by TIB Diversified Payment Rights (USD 250 million Series 2004-A Notes, USD 250 million Series 2004-B Notes and USD 100 million Series 2004-C Notes). All series have been totally repaid as of 31 December 2014.

(9) In December 2005 the Bank completed a securitization transaction based on its foreign currency denominated future credit and debit card receivables from MasterCard, Cirrus, Maestro and Visa Europe Services, Inc. TIB Card Receivables Funding Company Limited issued two Series of Dollar-denominated floating rate notes (USD 200 million Series 2005-A Notes and USD 150 million Series 2005-B Notes). All series have been totally repaid as of 31 December 2014.

(10) In June 2006 the Bank utilized the DPR program for the additional issuance of USD 800 million by TIB Diversified Payment Rights Finance Company (USD 100 million Series 2006-A Notes, USD 100 million Series 2006-B Notes, USD 150 million Series 2006-C Notes, USD 250 million Series 2006-D Notes and USD 200 million Series 2006-E Notes). All series have been totally repaid as of 31 December 2014.



**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***17. FUNDS BORROWED (continued)**

(11) On 8 May 2013, the Bank has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 441 million and Euro 631 million, with an optional one-year extension of maturity. Related loans had interest rates of Libor+0.5% and Euribor+0.5% as of 31 December 2013.

(12) On 12 September 2013, the Bank has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 391 million and Euro 652 million, with an optional one-year extension of maturity. Related loans had interest rates of Libor+0.3% and Euribor+0.3% as of 31 December 2013.

**18. DEBT SECURITIES ISSUED**

	<u>31 December 2014</u>	<u>31 December 2013</u>
Debt securities at amortised cost- fixed interest rate	17,121,582	9,738,953
Debt securities at amortised cost-floating interest rate	10,940	341,052
Total	<u><b>17,132,522</b></u>	<u><b>10,080,005</b></u>

Debt securities have a maturity varied from January 2015 to December 2023 with between 1.11% and 11.46% fixed and floating interest rates.

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### **19. TAXATION**

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

Corporation tax is applied on taxable corporate income, which is calculated from the statutory corporate income tax base by adding back non-deductible expenses, and by deducting dividends received, other tax exempt income and investment incentives utilised.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 31 December 2014 is 20% (31 December 2013: 20%).

Losses can be carried forward for offset against future taxable income for up to 5 years. Losses cannot be carried back for offset against profits from previous periods.

#### **19.1. Income Withholding Tax**

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1<sup>st</sup> April and 25<sup>th</sup> April of the following year. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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

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

The effective tax rate has been taken as 20% in 2014 (2013: 20%).

#### **19.2. 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.

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

### **19. TAXATION (continued)**

#### **19.3. Tax applications for foreign branches**

##### **NORTHERN CYPRUS**

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no, 41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorised by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal instalments in May and October.

##### **LONDON**

Corporate earnings are subject to 21% corporate tax in England. The relevant rate is applied to the tax base that is determined by adding the expenses that cannot be deducted due to the regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. On the other hand, if the tax base of the relevant year, is higher than the amount found the corporate tax payments are made as temporary tax payments in four instalments in July and October of the relevant year and in January and April of the following year. Relevant temporary tax payments are deducted from the corporate tax that is finalized until the end of January of the second year following the relevant year. On the other hand, if the tax base is under the afore-mentioned threshold, corporate tax is paid by the end of January of the second year following the year that the profit is made.

##### **BAHRAIN**

There is no corporate taxation on banking profits earned and booked in Bahrain for any type of banking institutions.

##### **IRAQ**

Corporate earnings are subject to 15% income tax in Iraq. Income tax is accrued at the end of the year and paid in the following year to the related tax administration by the end of June, at the latest. The corporate tax rate is 15% and the balance sheet must be presented to the tax office until the end of June of the following year and accrued taxes must be paid. On the other hand, Tax Administrations Regional Government in Northern Iraq can recognise the fixed tax except signified rates.

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Notes to the Separate Financial Statements

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### 19. TAXATION (continued)

#### 19.3. Tax applications for foreign branches (continued)

##### GEORGIA

Corporate earnings are subject to income tax rate of 15% according to the Georgian legislation. This ratio is applied to the tax base that will be calculated as a result of the implementation of exemptions, deductions, addition of disallowable expenses, to the income of corporations and that are calculated in accordance with the tax laws. Income tax has to be paid until the beginning of April of the following year. In addition, in accordance with the legislation of Georgia, each year during May, July, September and December the amount of tax, that calculated according to the previous year income tax, is paid to the tax office by four equal installments of the probable income that is likely to be obtained the current year. If those prepaid taxes are lower than the final corporate tax, the difference is paid until the beginning of April of the following year, if it is higher, then the difference is returned to the institution by the tax authorities.

##### KOSOVO

Corporate earnings are subject to income tax rate of 10% according to the Kosovo legislation. This ratio is applied to the tax base that will be calculated as a result of the implementation of exemptions, deductions, addition of disallowable expenses, to the income of corporations and that are calculated in accordance with the tax laws. Tax has to be paid in advance until April, July, October and January of the current year and the 15th day of January of the following year by four installments. If those prepaid taxes are lower than the final corporate tax, the difference is paid until the beginning of April of the following year, if it is higher, then the difference is returned to the institution by the tax authorities.

#### a) Statement of financial position: Taxes and dues payable

	<b>31 December 2014</b>	<b>31 December 2013</b>
Taxes and dues payable other than income	257,216	214,349
Corporate tax provision	1,110,149	354,433
Corporate tax paid in advance	<u>(717,778)</u>	<u>(249,752)</u>
<b>Corporate tax liability</b>	<b>392,371</b>	<b>104,681</b>
Deferred tax asset	<u>(703,531)</u>	<u>(664,315)</u>
	<b><u>(53,944)</u></b>	<b><u>(345,285)</u></b>

#### b) Statement of comprehensive income: Provision for taxes on income

	<b>31 December 2014</b>	<b>31 December 2013</b>
Corporate and withholding taxes	1,116,157	363,860
Deferred tax benefit / charge	<u>(318,625)</u>	<u>340,319</u>
	<b><u>797,532</u></b>	<b><u>704,179</u></b>

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***19. TAXATION (continued)***c) Statement of comprehensive income: Reconciliation*

Reconciliation of the Bank's taxation for the year ended 31 December 2014 and 2013 are as follows:

	31 December 2014		31 December 2013	
	Amount	%	Amount	%
Profit before income tax	4,471,302		4,269,836	
Income tax using the Bank's domestic tax rate	894,260	20.00	853,967	20.00
Non-deductible expenses	110,786	2.48	18,132	0.42
Dividend income	(116,551)	(2.61)	(84,994)	(1.99)
Other tax exempt income	(101,421)	(2.27)	(93,326)	(2.19)
<b>Taxation</b>	<b>787,074</b>	<b>17.60</b>	<b>693,779</b>	<b>16.24</b>
Withholding tax	10,458		10,400	
<b>Taxation charge</b>	<b>797,532</b>		<b>704,179</b>	

*Deferred Taxation:*

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

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2013: 20%) is used.

	31 December 2014	31 December 2013
Reserve for employee severance indemnity	(88,039)	(67,686)
Short-term employee benefits	(6,103)	(5,303)
Valuation difference on financial assets and liabilities	80,912	72,148
Impairment on property and equipment	(8,512)	(42,006)
Provision for the pension fund	(379,681)	(355,168)
Credit card bonus and other provisions	(189,755)	(159,589)
Other	(112,353)	(106,711)
<b>Deferred tax asset</b>	<b>(703,531)</b>	<b>(664,315)</b>

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***19. TAXATION (continued)***Deferred Taxation: (continued)*

As at 31 December 2014 and 31 December 2013, the Bank does not have any unrecognised deferred tax asset.

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

	<b>Balance at 1 January 2014</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehensive income</b>	<b>Balance at 31 December 2014</b>
Reserve for employee severance indemnity	(67,686)	(9,950)	(10,403)	(88,039)
Short-term employee benefits	(5,303)	(800)		(6,103)
Valuation difference on financial assets and liabilities	72,147	(281,044)	289,809	80,912
Impairment on property and equipment	(42,006)	33,494		(8,512)
Provision for the pension fund	(355,168)	(24,513)		(379,681)
Credit card bonus and other provisions	(159,589)	(30,166)		(189,755)
Other	(106,710)	(5,643)		(112,353)
	<b>(664,315)</b>	<b>(318,622)</b>	<b>279,406</b>	<b>(703,531)</b>

  

	<b>Balance at 1 January 2013</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehensive income</b>	<b>Balance at 31 December 2013</b>
Reserve for employee severance indemnity	(68,441)	(7,481)	8,236	(67,686)
Short-term employee benefits	(4,063)	(1,240)		(5,303)
Valuation difference on financial assets and liabilities	(112,852)	466,801	(281,802)	72,147
Impairment on property and equipment	(6,282)	(35,724)		(42,006)
Provision for the pension fund	(355,642)	474		(355,168)
Credit card bonus provision	(155,469)	(4,120)		(159,589)
Other	(28,310)	(78,400)		(106,710)
	<b>(731,059)</b>	<b>340,310</b>	<b>(273,566)</b>	<b>(664,315)</b>

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### 20. PROVISIONS

	<u>2014</u>	<u>2013</u>
<b>Reserve for employee severance indemnity</b>		
Provisions as at 1 January	338,434	342,205
Provision set during the year	66,964	57,419
Payments made during the year	(17,220)	(20,019)
Actuarial gain/(losses)	52,017	(41,171)
Provision as at the end of the year	440,195	338,434
Pension fund provision	1,898,407	1,775,839
Other provisions (see below)	1,373,329	1,524,948
<b>Total provisions</b>	<b><u>3,711,931</u></b>	<b><u>3,639,221</u></b>

#### Provision for Retirement Pay:

Under the Turkish Labour Law, the Bank entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days' pay maximum of the retirement pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the separate financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Bank arising from the retirement of the employees.

IFRS require actuarial valuation methods to be developed to estimate the Bank's obligation under defined benefit plans.

Actuarial calculations for the Bank's accrued liability have been performed by an independent valuation company. The principal actuarial assumptions used in the calculation of the total liability at the reporting dates are as follows:

- discount and inflation rates, which vary by years, were used for the calculation and the real rate of increase in salaries was taken as 2%;
- Full TL 3,438.22 salary ceiling, which was effective as at 31 December 2014 was taken into account in the current year calculations;
- It is assumed that the amount of the salary ceiling will increase each year, in line with the inflation rate;
- The age of retirement is considered as the youngest age possible that an individual can retire.
- The table CSO 1980 is used for the probabilities of death for female and male employees.

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### **20. PROVISIONS (continued)**

#### Provision for Other Liabilities:

##### Pension Fund Provision:

Türkiye İş Bankası A.Ş.'s employees are the members of Türkiye İş Bankası A.Ş. Emekli Sandığı Vakfı ("İşbank Pension Fund") which is established in accordance with the temporary Article 20 of the Social Security Act No: 506. As per the provisional article No: 23 of the Banking Law No: 5411, pension funds of the banks which were established within the framework of Social Security Institution Law, should be transferred to the Social Security Institution within three years after the publication of the prevailing Banking Law enacted on 1 November 2005. Methods and principles related to the transfer have been determined as per the Cabinet decision no: 2006/11345 published on 30 November 2006. However, the said article of the Banking Law has been vetoed by the President on 2 November 2005 and the execution of the article was ceased based on the Supreme Court's decision numbered E.2005/39. K. 2007/33 and dated 22 March 2007 effective from 31 March 2007.

Following annulment of the temporary Article 23 of the Banking Law, the new law "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" was published in the Official Gazette dated 8 May 2008 and came into force, the new law requires transfer of the participants or beneficiaries of pension funds to Social Security Institution as at the effective date of the Act within 3 years and prescribes the extension period of the transfer as maximum of two years upon the order of the Cabinet. However related transfer period has been prolonged for 2 years by the Cabinet decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years after that related transfer period has been prolonged for one more year by the Cabinet decision dated 08 April 2013, which was published on the Official Gazette dated 3 May 2013 and numbered 28636 also this period has revalidated one more year by the Cabinet decision dated 24 February 2014, which was published on the Official Gazette dated 30 April 2014 and numbered 28987. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20<sup>th</sup> provisional article of Law No. 5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 and numbered 29335.

The above mentioned law also includes the following:

- technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and
- uncovered other rights and compensations of participants or beneficiaries of pension funds should be covered by the entities who transfer the funds.

On the other hand, the application made on 19 June 2008 by the Republican People's Party to the Constitutional Court for the annulment and motion for stay of some articles, including the first paragraph of the provisional article 20 of the Law, which covers provisions on transfers, was rejected in accordance with the decision taken at the meeting of the afore-mentioned court on 30 March 2011.

An actuarial report has been obtained from registered actuary regarding calculation of the amount to be paid to the Social Security Institution by the Bank in accordance with the new law. The CSO 1980 mortality table, 9.8% of technical deficit interest rate and 34.5% of



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premium rate are taken into account in the calculation of the said technical deficit. No real increase / decrease is anticipated in salary and health expenses.

### 20. PROVISIONS (continued)

Provision for Other Liabilities (continued):

Pension Fund Provision (continued):

On the other hand "Provisional Article 39" is added to Social Security and General Health Insurance Law numbered 5510 via Amendment to Social Security and General Health Insurance Law numbered 6283 published in the Official Gazette dated 8 March 2012 and numbered 28227. According to aforementioned amendment, while members payments which is paid for retired or died before January 2000 and entitled invalidity, old-age pension per indexed system of the Law numbered 506 and members' payments, which is paid for invalidity or old-age before January 2000 and died after this date, will be recalculated. This application will be used from the date of 1 January 2013. In this context, actuarial calculation, invalidity, elderliness or survivor's pension who take salary to the foundation mentioned calculation made considering regulation. The amount of the actual and Technical Deficit played an important role in the regulation which mentioned like increase over the previous year.

The health benefits to be paid will be considered by the Bank management due to the changes in the Social Security Institution legislation and other regulations.

Up to date, there has not been any deficit in Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik Yardımlaşma Sandığı Vakfı (Supplementary Pension Fund of İşbank Members), which has been founded by the Bank employees in accordance with the provisions of the Civil Code which provides subsequent retirement benefits; and the Bank has made no payment for this purpose. It is believed that the assets of this institution are adequate enough to cover its total obligations; therefore this shall not constitute any additional liability on the Bank.

	<u>31 December 2014</u>	<u>31 December 2013</u>
Technical discount rate	9.80%	9.80%
Premium rate	34.50%	34.50%
Mortality rates	CSO 1980 Mortality Table	CSO 1980 Mortality Table

	<u>31 December 2014</u>	<u>31 December 2013</u>
Present value of funded obligations	2,308,445	2,152,401
Fair value of plan assets	(410,038)	(376,562)
<b>Recognised liability for defined benefit obligations</b>	<b><u>1,898,407</u></b>	<b><u>1,775,839</u></b>

Plan assets are comprised of the following items:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Cash and cash equivalents	243,003	253,716
Government bonds, treasury bills and investment funds	116,934	96,722
Other	50,101	26,124
	<b><u>410,038</u></b>	<b><u>376,562</u></b>

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Other provisions comprised the following:

	<b>2014</b>			
	Provision for non-cash loans	General provision	Credit card bonus provision	Other provisions(*)
Balance at 1 January	88,970	1,000,000	62,798	373,180
Provisions made during the year	36,862	-	7,361	11,300
Provisions reversed during the year	(59,913)	-	(2,956)	(145,273)
Transfer to other provision accounts	-	-	-	-
Effect of change in foreign exchange rate	963	-	-	37
<b>Balance at 31 December</b>	<b>66,882</b>	<b>1,000,000</b>	<b>67,203</b>	<b>239,244</b>

	<b>2013</b>			
	Provision for non-cash loans	General provision	Credit card bonus provision	Other provisions (*)
Balance at 1 January	102,570	1,000,000	53,443	187,325
Provisions made during the year	69,850	-	9,465	228,595
Provisions reversed during the year	(85,675)	-	(110)	(42,101)
Transfer to other provision accounts	-	-	-	-
Effect of change in foreign exchange rate	2,225	-	-	(639)
<b>Balance at 31 December</b>	<b>88,970</b>	<b>1,000,000</b>	<b>62,798</b>	<b>373,180</b>

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### **20. PROVISIONS (continued)**

As announced by material event disclosures dated 31 December 2012, an inspection, which is related to payments (contributions) made by Bank to "Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı" which is founded according to Turkish Commercial Law and Civil Law, was conducted by the Bank Tax Audit Committee Inspectors for fulfilling its obligations within the framework of the Foundation Share and the relevant legislation.

As a result of this interview, the amount of the related liability is a benefit with the nature of wage for the foundation members who work at the period of payment. Thus the inspection report was prepared with the claim of getting suspended income tax stoppage on payments/stamp duty on behalf of penalty for the years 2007 and 2008. According to this report, the tax penalty notice with the total amount of TL 74,353, which is the calculation of the suspended income tax/stamp duty, was served to the Bank.

Consideration related to subject, the Bank's implementation comply with the legislation, conclusion that, there is no legal basis has been reached. Across the country the lawsuit was filed against the mentioned assessments in various tax courts and the cases brought to the tax courts of the first instance, a part of decision has been decided in against of the Bank, a part of decision has been decided in favor of the Bank.

On the other hand, as announced by material event disclosures dated 19 December 2013, in the mentioned year on the same subject relating to tax inspection reports 2009, 2010 and 2011 periods suspended for income tax, stamp tax assessments held, and tax penalties of the notification is in progress at this time. According to this report, total tax and penalty TL 152,383 notified to the Bank.

In this context, for the finalized decisions of Regional Administrative Courts related to the years 2007 and 2008 against the Bank, the Bank applied to the Constitutional Court. As considering one of the Bank's applications, the Constitutional Court made its decision court file numbered 2014/6192 amounting to TL 39,378.20. The court decision dated 12 November 2014 appeared in the official gazette dated 21 February 2015 and numbered 29274. According to this decision, there is no predictability in legal conformity for taxing the Bank's contributions to the Pension Fund in terms of wage base and for this reason it was accepted that property right of the Bank has been violated according to the 35th article of Constitution. Finally the Court decided that the amount of tax, penalties and default interest which was paid by the Bank should be paid back to the Bank as for compensation with its legal interest.

According to the decision of the Constitutional Court, it is expected that the cases related to the periods 2007, 2008, 2009, 2010 and 2011 will conclude in favor of the Bank. In this context, the provisions which had been allocated for the mentioned periods (2007 to 2011), is reversed. The path to be followed for other provisions, allocated for the same reason within the scope of accounting standards for the year 2012 and subsequent periods, will be determined depending on the legal process. In this regard, for the above mentioned periods (2007 to 2011), effects of this court case is assessed as an adjusting event and previously recognised provisions are adjusted accordingly in 2014 financials statements.

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### 21. OTHER LIABILITIES

	<u>31 December 2014</u>	<u>31 December 2013</u>
Credit card payables to affiliated merchants	3,856,258	3,341,102
Deposits and advances taken for imports	1,129,857	2,862,847
Unclaimed wages and payables	527,260	471,412
Payable to personnel	273,000	226,000
Payables to Clearing House	644,679	634,048
Cash guarantees	65,960	41,679
Blocked money	74,165	129,235
Payables to suppliers	43,344	38,191
Payment orders	97,164	97,948
Payables to funds	41,424	39,282
Dividend payables	-	-
Other	926,040	311,864
	<u><b>7,679,151</b></u>	<u><b>8,193,608</b></u>

### 22. SUBORDINATED LIABILITIES

On 24 October 2012, the Bank issued 10-year-term bond with a nominal value of USD 1,000 million, which is like subordinated loans. The bond is issued for the individual and legal persons who are resident abroad. On 10 December 2013, the Bank issued another 10 year-term bond with a nominal value of USD 400 million, which is like subordinated loans for the individual and legal persons who are resident abroad. The aforementioned bonds have 6.00% and 7.85% interest rate, respectively. The bonds mentioned are amounting to TL 3,268,784 as of 31 December 2014 (31 December 2013: TL 2,984,143).

### 23. CAPITAL AND RESERVES

The Bank's share capital is divided into Group A, Group B and Group C shares, The Bank has founder shares originally issued to shareholders who purchased 100 shares of the first TL 4,000 of paid up capital. These shares, issued to name, entitle the holders to 10% of statutory net income for each year, after transfers to legal reserves, loss contingency reserves and a first dividend to Group A, Group B and Group C shareholders of 6% on the paid up capital. Such distribution is limited to a maximum of full TL 250 Group A and Group B shares have a par value of full 1 Kurus and Group C shares have a par value of full 4 Kurus.

With nominal values of full 1 Kurus Group A shares have the privileges:

- to obtain 20 times share at the distribution of bonus shares issued from conversion of extraordinary reserves and revaluation funds generated in accordance with the relevant laws (Article 18 of the Articles of Incorporation)
- for 20 voting rights (Article 49 of the Articles of Incorporation)

Despite their smaller nominal value (Full 1 Kurus) Group B shares have the same rights for the above mentioned subjects over Group C shares with a nominal value of full 4 Kurus. Furthermore, Group A and Group B shares have priority rights over Group C shares in the distribution of profits pursuant to Article 58 of the Bank's Articles of Incorporation.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***23. CAPITAL AND RESERVES (continued)**

Authorized and nominal paid in capital can be analysed as follows:

<u>Group</u>	<u>Par Value</u>	<u>31 December 2014 Authorized</u>	<u>31 December 2014 Paid-In</u>	<u>31 December 2013 Authorized</u>	<u>31 December 2013 Paid-In</u>
A	0.0100	1	1	1	1
B	0.0100	29	29	29	29
C	0.0400	4,499,970	4,499,970	4,499,970	4,499,970
		<b>4,500,000</b>	<b>4,500,000</b>	<b>4,500,000</b>	<b>4,500,000</b>

At 31 December 2014 and 31 December 2013, the Bank's share capital was held as follows:

<u>Shareholders</u>	<u>Ownership Percentage (%)</u>	<u>Paid-Up Capital 31 December 2014</u>	<u>Paid-Up Capital 31 December 2013</u>
Supplementary Pension Fund of İşbank Members	40.15	2,455,549	2,456,161
Republican People's Party (CHP)	28.09	1,717,967	1,717,967
Other	31.76	1,942,422	1,941,810
	<b>100.00</b>	<b>6,115,938</b>	<b>6,115,938</b>

***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.

***Fair value reserve***

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

***Translation reserve***

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

***Dividends***

At the Ordinary General Assembly of the Bank held on 31 March 2014, it was decided to distribute a dividend of TL 841,011 to Group A, Group B and Group C shareholders, founder shareholders, Board of Directors, management and personnel and to allocate TL 237,052 to legal reserves from retained earnings. According to Turkish legislation, unconsolidated current year profit is used for profit distribution.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***24. NET FEE AND COMMISSION INCOME**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Credit card fee and commission	1,065,282	816,175
Investment funds portfolio management commission	113,800	107,749
Bank account charges	196,406	205,211
Non-cash loan commission	290,456	227,452
Collection and payment commission	138,133	209,373
Money transfer charges	203,555	167,502
Customer investigation charges	110,697	223,361
Commission for insurance agency operations	94,497	76,172
Other	121,825	128,447
<b>Total Fee and Commission Income</b>	<b>2,334,651</b>	<b>2,161,442</b>
Commission given for credit cards	221,901	128,177
Banking commission	33,446	29,092
Stock exchange operations commission	32,051	28,344
Other	43,475	45,998
<b>Total Fee and Commission Expense</b>	<b>330,873</b>	<b>231,611</b>
<b>Net Fee and Commission Income</b>	<b>2,003,778</b>	<b>1,929,831</b>

**25. OTHER OPERATING INCOME**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Gain on sale of investments in equity participations and tangible assets	48,927	159,202
Income from removal of mortgages and hostages	-	22
Rent income	10,341	10,556
Reversal of excess provisions	452,785	239,456
Other	56,773	23,455
	<b>568,826</b>	<b>432,691</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***26. GENERAL ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Salaries and employee benefits	2,438,959	2,255,530
Deposit insurance premium expense	280,031	220,730
Depreciation and amortisation	341,158	302,765
Rent expense	274,117	224,595
Other provisions	437,391	695,641
Communication expense	117,713	112,459
Advertising expenses	180,896	169,044
Increase in liability for long service leave	66,964	57,419
Research and development expense	26,813	11,552
Other	1,458,937	1,061,590
	<b>5,622,979</b>	<b>5,111,325</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***27. RELATED PARTIES**

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

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b><u>Assets:</u></b>		
Loans and advances to banks	238,229	86,498
Cash loans	1,399,849	1,492,869
Interest and other income accruals	50,926	28,302
<b><u>Liabilities:</u></b>		
Deposits	4,638,781	3,790,628
Interest and other expense accruals	9,764	75,450
<b><u>Income / (expense):</u></b>		
Interest and commission income	119,068	84,088
Interest expense	216,535	210,580
Profit/loss from derivative transaction	(10,626)	68,224
<b><u>Off-balance sheet items:</u></b>		
Derivative instrument contracts	793,010	1,208,134
Non-cash loans	1,680,820	1,617,756

No impairment losses have been recognised against related party balances during the year (31 December 2013: None).

**Compensation of key management personnel:**

The remunerations of directors and other members of key management during the year were as follows:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Short-term benefits	15,857	15,401
	<b>15,857</b>	<b>15,401</b>



**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***28. COMMITMENTS AND CONTINGENCIES**

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

	<b>31 December 2014</b>	<b>31 December 2013</b>
Guarantee letters and guarantees	34,379,041	30,095,919
Letters of credit	7,206,401	6,421,249
Acceptance loans	1,229,731	1,494,946
Endorsements	-	-
Swap and forward agreements	70,727,909	71,193,269
Futures and options	11,733,831	12,133,866
Commitments for credit card expenditure limits	20,489,527	17,679,967
Loan granting commitments	10,001,577	9,155,392
Commitments for check payments	5,875,007	6,024,383
Other commitments	4,331,183	8,933,526
	<b>165,974,207</b>	<b>163,132,517</b>

*Definite guarantees, provisional guarantees, sureties and similar transactions:*

	<b>31 December 2014</b>	<b>31 December 2013</b>
Provisional letters of guarantee	930,188	868,963
Definite letters of guarantee	23,022,561	20,761,079
Advance letters of guarantee	4,670,054	4,528,544
Letters of guarantee addressed to customs	3,182,599	1,952,773
Other guarantees and letters of guarantee	2,573,639	1,984,560
	<b>34,379,041</b>	<b>30,095,919</b>

*Non-cash loans maturity structure is as follows:*

	<b>31 December 2014</b>	<b>31 December 2013</b>
Non-cash loans against cash risks	1,786,200	1,378,300
With original maturity of 1 year or less	295,850	178,153
With original maturity more than 1 year	1,490,350	1,200,147
Other non-cash loans	41,028,973	36,633,814
	<b>42,815,173</b>	<b>38,012,114</b>

## TÜRKİYE İŞ BANKASI A.Ş.

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### 28. COMMITMENTS AND CONTINGENCIES (continued)

The breakdown of notional amounts of derivative instruments as at 31 December 2014 and 31 December 2013 are as follows:

	<b>31 December 2014 Buy</b>	<b>31 December 2014 Sell</b>	<b>31 December 2013 Buy</b>	<b>31 December 2013 Sell</b>
Forward foreign exchange contracts	3,641,140	3,640,675	4,561,636	4,588,558
Currency swaps	19,518,331	18,102,984	18,551,123	18,423,513
Interest rate swaps	11,073,696	11,073,696	10,886,720	10,886,720
Currency options	4,063,401	4,045,376	4,555,540	4,564,244
Interest rate options	759,159	759,159	1,287,735	1,287,735
Marketable security futures	-	2,078,492	-	438,254
Currency sell futures	-	-	-	358
Securities put options	28,244	-	-	-
Cross currency swaps	1,990,480	1,686,907	1,746,058	1,548,941
	<b><u>41,074,451</u></b>	<b><u>41,387,289</u></b>	<b><u>41,588,812</u></b>	<b><u>41,738,323</u></b>

#### Fiduciary Activities

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

The Bank has 26 mutual funds; all of them are managed by İş Portföy Yönetimi A.Ş. which was established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Bank purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

### 29. THE BANK'S STRATEGY FOR THE USE OF FINANCIAL INSTRUMENTS

The Bank's main activities comprise private, retail, commercial and corporate banking, money market and securities market operations, as well as activities related to international banking services.

In conformity with the general liability structure of the banking system, the Bank's liabilities are mainly composed of short-term deposits and other medium and long-term liabilities. The liquidity risk that may arise from this liability structure can be easily controlled through deposit continuity, as well as widespread network of the correspondent banks, market maker status (The Bank is one of the market maker banks) and by the use of liquidity facilities of the Central Bank of Turkey. As a result, the liquidity of the Bank and the banking system can be easily monitored. On the other hand, foreign currency liquidity requirements are met by the money market operations and currency swaps.

Most of the funds collected bear fixed-interest, and by monitoring the sectoral developments and the yields of alternative investment instruments, fixed and floating rate placements are made and some of the funds are transferred to the Treasury guaranteed projects. On the other hand, high yield Eurobonds and government debt securities portfolios are of sufficient quality and quantity to reduce the risk which may arise from the fluctuations in the interest rates.

## **TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### **29. THE BANK'S STRATEGY FOR THE USE OF FINANCIAL INSTRUMENTS (continued)**

In terms of placements, security principle has always been the priority of the Bank and the placements are oriented to high yield and low risk assets by considering their maturity structure. Accordingly, a pricing policy aiming at high return is implemented in the long-term placements and attention is paid to the maximum use of non-interest income generation opportunities.

The Bank determines its lending strategy by taking into consideration the international and national economic data and expectations, market conditions, current and potential credit customers' expectations and tendencies, and risks such as; interest rate, liquidity, currency and credit risks. Furthermore, in conformity with this strategy, the Bank acts within the legal limits in terms of asset-liability management.

Main growth targets for different asset classes are set by the long-term plans shaped along with budgeting; and the Bank takes the required positions against the short-term currency, interest rates and price fluctuations in accordance with these plans and the course of the market conditions.

Foreign currency, interest rate and price fluctuations in the markets are monitored continuously. While taking positions, in addition to the legal limits, the Bank's own transaction and control limits are effectively monitored in order to avoid limit overrides.

The Bank's asset-liability management is executed by the Asset-Liability Management Committee, within the risk limits determined by the Board of Directors, in order to keep the liquidity risk, interest rate risk, currency risk and credit risk within certain limits depending on the equity adequacy and to maximize profitability.

### **30. RISK MANAGEMENT**

Through its normal operations, the Bank is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. Risk management department exercises its functions according to the Internal Risk Management Policies of the Bank, and directly reports to Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management.

#### Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by BRSA, The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Bank operates in offshore markets. As of 31 December 2014, capital adequacy ratio of the Bank on an unconsolidated basis is 16.02%.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**

Fair values of the financial instruments are summarized below:

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>31</u> <u>December</u> <u>2014</u>	<u>31</u> <u>December</u> <u>2013</u>	<u>31</u> <u>December</u> <u>2014</u>	<u>31</u> <u>December</u> <u>2013</u>
Financial assets:				
Loans and advances to customers	154,423,426	134,162,847	152,947,000	133,030,951
Financial assets at fair value through profit or loss	1,238,255	2,203,558	1,238,255	2,203,558
Available for sale investments	39,256,046	28,319,745	39,256,046	28,319,745
Held to maturity investments	1,301,104	7,627,448	1,304,277	7,732,705
Financial liabilities:				
Deposits	133,551,191	120,974,765	133,602,689	120,970,317
Obligations under repurchase agreements	17,696,116	20,916,278	17,696,116	20,916,278
Funds borrowed	20,657,282	15,909,946	20,587,208	15,835,478
Subordinated liabilities	3,268,784	2,984,143	3,268,784	2,828,453

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.6.5.

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

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

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

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

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	<b>31 December 2014</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Asset at Fair Value Profit or Loss</b>			
Debt Securities	253,619	10,255	1,072
Equity Shares	-	-	-
Derivative Financial Asset	-	973,309	-
Other	-	-	-
<b>Financial Asset Available for Sale</b>			
Debt Securities	32,029,800	6,315,820	744,601
Other	-	53,793	-
<b>Investments in Equity Shares (*)</b>	7,251,253	-	-
<b>Derivative Financial Liabilities</b>	-	630,151	-

(\*) Since the unlisted investments in associates and subsidiaries are recognised at cost less impairment within the framework of IAS 39, these companies are not included in the tables above.

	<b>31 December 2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Asset at Fair Value Profit or Loss</b>			
Debt Securities	827,854	5,901	57,228
Equity Shares	2	-	-
Derivative Financial Asset	-	1,312,573	-
Other	-	-	-
<b>Financial Asset Available for Sale</b>			
Debt Securities	18,989,827	5,190,812	4,095,104
Other	-	44,002	-
<b>Investments in Equity Shares (*)</b>	5,585,702	-	-
<b>Derivative Financial Liabilities</b>	-	981,522	-

(\*) Since the unlisted investments in associates and subsidiaries are recognised at cost less impairment within the framework of IAS 39, these companies are not included in the tables above.

There has not been any transfer between level 1 and level 2 during the year.

The movement table of financial assets at level 3 are given below.

	<b>2014</b>	<b>2013</b>
<b>Balance at the Beginning of the Year</b>	<b>4,152,332</b>	<b>1,234,938</b>
Purchases	53,576	2,995,775
Redemption or Sales	(513,800)	(297,139)
Valuation Difference	33,337	171,547
Currency Translation Difference	-	-
Transfers	(2,979,772)	47,211
<b>Balance at the end of the year</b>	<b>745,673</b>	<b>4,152,332</b>

## **TÜRKİYE İŞ BANKASI A.Ş.**

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

### **30. RISK MANAGEMENT (continued)**

#### Fair Value of Financial Instruments (continued)

The Bank considers that the carrying amounts of financial assets and financial liabilities recorded in the separate financial statements approximate their fair values.

#### Liquidity risk:

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. In order to manage this risk, the Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments. The Bank uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

#### Operational risk:

Operational risk arises from the potential for financial loss or reputation damage as a result of inadequate systems (including systems breakdown), errors, poor management, and breaches of internal controls, fraud or external events. The Bank's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

#### Market risk:

Market risk is the risk that changes in the level of interest rates, currency exchange rates or the price of securities and other financial contracts will have an adverse financial impact. The primary risks within the Bank's activities are currency risks. The Bank's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

The market risk is measured by two separate methods known respectively as the Standard Method and the Value At Risk ("VAR") by Market Risk Management Department.

By applying the Standard Method, at the end of each month and weekly measurements of exchange rate risk are reported to the Bank's top management.

Using VAR method, the market risk is measured on a daily basis to differentiate between interest rate risk, currency risk and equity participation risk and is subject to daily internal reporting in the Bank. Further retrospective testing (back-testing) is carried out on a daily basis to determine the reliability of the daily risk calculation by the VAR method, which is used to estimate the largest possible loss of the following day.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Currency risk:

The foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. The risk arising from the depreciation or appreciation of Turkish Lira against foreign currencies is managed at the Board level.

In accordance with IFRS 7, the Bank's sensitivity to a potential change in foreign currency rates which may have a significant impact has been analysed, In the analysis presented below 10% change is anticipated in USD, EUR and GBP and such change is used in the Bank's internal reporting.

Change in Foreign Currency		Effects on Profit/Loss (*)	
		<u>31 December</u> <u>2014</u>	<u>31 December</u> <u>2013</u>
USD	10% increase	75,641	14,050
	10% decrease	(75,641)	(14,050)
EURO	10% increase	(348,719)	(240,107)
	10% decrease	348,719	240,107

(\*) The above impacts on the profit/loss and shareholders' equity indicate the values before tax.

**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Currency risk (continued):

Net foreign currency position for the year ended 31 December 2014 and for the year ended 31 December 2013 are as follows:

<b>31 December 2014</b>	<b>EURO</b>	<b>USD</b>	<b>Other FC</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	271,911	561,893	99,547	933,351
Balances with the central bank	3,720,706	11,345,393	3,876,586	18,942,685
Loans and advances to banks	228,458	582,466	450,379	1,261,303
Financial assets at fair value through profit or loss	102,981	437,269	-	540,250
Available for sale investment securities	634,440	6,587,251	-	7,221,691
Held-to-maturity investment securities	19,023	25,726	6,258	51,007
Investments in equity participations	285,945	-	130,366	416,311
Loans and advances to customers (*)	15,980,008	41,236,689	1,813,746	59,030,443
Other assets	113,396	257,488	28,613	399,497
<b>Total Assets</b>	<b>21,356,868</b>	<b>61,034,175</b>	<b>6,405,495</b>	<b>88,796,538</b>
<b>LIABILITIES</b>				
Deposits (**)	22,513,619	32,197,005	5,855,000	60,565,624
Loans and advances from banks	5,931,065	11,855,716	2,960	17,789,741
Obligations under repurchase agreements	179,342	2,737,339	-	2,916,681
Debt securities issued	18,017	11,572,375	-	11,590,392
Subordinated liabilities	-	3,268,784	-	3,268,784
Other liabilities	597,387	1,238,573	50,608	1,886,568
<b>Total Liabilities</b>	<b>29,239,430</b>	<b>62,869,792</b>	<b>5,908,568</b>	<b>98,017,790</b>
<b>Net Statement of Financial Position</b>	<b>(7,882,562)</b>	<b>(1,835,617)</b>	<b>496,927</b>	<b>(9,221,252)</b>
Net Off-Balance Sheet Position	4,449,669	2,647,966	(1,441,280)	5,656,355
<b>Net Long /(Short )Position</b>	<b>(3,432,893)</b>	<b>812,349</b>	<b>(944,353)</b>	<b>(3,564,897)</b>
<b>31 December 2013</b>				
Total Assets	24,633,808	49,683,997	5,208,264	79,526,069
Total Liabilities	31,824,409	46,538,820	5,701,319	84,064,548
<b>Net Statement of Financial Position</b>	<b>(7,190,601)</b>	<b>3,145,177</b>	<b>(493,055)</b>	<b>(4,538,479)</b>
Net Off-Balance Sheet Position	4,849,740	(2,733,080)	370,169	2,486,829
<b>Net Long /(Short )Position</b>	<b>(2,340,861)</b>	<b>412,097</b>	<b>(122,886)</b>	<b>(2,051,650)</b>

(\*) The loan balance does not include non-performing loans and reserves.

(\*\*) The deposits balance includes precious metal deposits amounting to TL 2,759,546.



**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**

Maturity analysis of financial assets and financial liabilities are presented in the table below:

<b>31 December 2014</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Without Maturity</b>	<b>Total</b>
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	2,501,757	<b>2,501,757</b>
Balances with the central bank	16,322,322	-	-	-	-	5,727,226	<b>22,049,548</b>
Loans and advances to banks	558,230	49,094	109,817	1,739	-	674,341	<b>1,393,221</b>
Financial assets at fair value through profit or loss	311,293	365,276	317,788	219,217	24,681	-	<b>1,238,255</b>
Available for sale investment securities	142,075	575,324	1,688,664	16,086,543	20,597,650	165,790	<b>39,256,046</b>
Held-to-maturity investment securities	40,639	205,201	895,947	159,317	-	-	<b>1,301,104</b>
Loans and advances to customers (*)	14,240,357	13,818,122	48,412,155	60,702,471	15,151,141	2,488,351	<b>154,812,597</b>
<b>LIABILITIES</b>							
Deposits	71,770,367	25,222,080	6,044,770	1,082,867	-	29,431,107	<b>133,551,191</b>
Funds borrowed	428,751	1,742,988	10,544,785	5,247,615	2,693,143	-	<b>20,657,282</b>
Obligations under repurchase agreements	16,385,639	2,724	224,153	1,083,600	-	-	<b>17,696,116</b>
Subordinated liabilities	-	-	-	-	3,268,784	-	<b>3,268,784</b>
<b>31 December 2013</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Without Maturity</b>	<b>Total</b>
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	2,152,335	<b>2,152,335</b>
Balances with the central bank	14,806,382	-	-	-	-	6,001,336	<b>20,807,718</b>
Loans and advances to banks	817,644	9,107	27,373	21,169	-	652,317	<b>1,527,610</b>
Financial assets at fair value through profit or loss	422,372	406,728	491,647	568,431	314,378	2	<b>2,203,558</b>
Available for sale investment securities	559,211	617,121	3,777,572	11,002,925	12,318,914	44,002	<b>28,319,745</b>
Held-to-maturity investment securities	-	717,720	5,769,789	1,139,939	-	-	<b>7,627,448</b>
Loans and advances to customers (*)	12,586,977	10,900,065	37,919,809	53,873,712	12,339,501	6,731,535	<b>134,351,599</b>
<b>LIABILITIES</b>							
Deposits	67,188,468	20,245,236	7,744,158	173,808	-	25,623,095	<b>120,974,765</b>
Funds borrowed	418,617	1,135,548	8,980,455	4,199,522	1,175,804	-	<b>15,909,946</b>
Obligations under repurchase agreements	19,585,239	94,899	240,067	558,129	437,944	-	<b>20,916,278</b>
Subordinated liabilities	-	-	-	-	2,984,143	-	<b>2,984,143</b>

(\*)The loan balance does not include non-performing loans and reserves.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Liquidity Risk:

The following are the contractual maturities of financial liabilities including interest payments and excluding the impact of netting agreements:

<b>31 December 2014</b>	<b>Carrying Amount</b>	<b>Gross nominal inflow/outflow</b>	<b>Demand</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>
<b>Non-Derivative Liabilities</b>								
Deposits	133,551,191	134,062,158	29,431,107	71,942,182	25,442,446	6,156,962	1,089,461	-
Loans and advances from banks	20,657,282	22,235,647	-	434,475	1,786,394	10,856,531	6,003,388	3,154,859
Obligations under repurchase agreements	17,696,116	17,776,590	-	16,391,928	4,179	237,451	1,143,032	-
Debt securities issued	17,132,522	19,093,106	-	1,760,369	2,570,685	4,657,784	6,459,718	3,644,550
Subordinated liabilities	3,268,784	5,004,256	-	-	-	211,500	845,998	3,946,758
<b>Derivative Liabilities</b>								
Inflow	(973,308)	(43,124,699)	-	(16,509,366)	(4,835,301)	(6,441,110)	(11,898,326)	(3,440,596)
Outflow	630,151	39,337,041	-	13,676,081	4,365,996	6,076,153	11,778,215	3,440,596
	<b>191,962,738</b>	<b>189,379,843</b>	<b>29,431,107</b>	<b>87,695,669</b>	<b>29,334,399</b>	<b>21,755,271</b>	<b>15,421,486</b>	<b>10,746,167</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)****Liquidity risk (continued):**

<b>31 December 2013</b>	<b>Carrying Amount</b>	<b>Gross nominal inflow/outflow</b>	<b>Demand</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>
<b>Non-Derivative Liabilities</b>								
Deposits	120,974,765	121,445,132	25,623,095	67,356,660	20,405,566	7,873,928	185,883	-
Loans and advances from banks	15,909,946	16,500,542	-	424,628	1,160,938	9,121,167	4,550,715	1,243,094
Obligations under repurchase agreements	20,916,278	21,008,687	-	19,589,631	96,033	253,132	623,117	446,774
Debt securities issued	10,080,005	11,122,667	-	1,035,839	1,290,308	2,932,534	4,778,690	1,085,296
Subordinated liabilities	2,984,143	4,761,576	-	-	-	193,083	772,330	3,796,163
<b>Derivative Liabilities</b>								
Inflow	(1,312,573)	(42,027,066)	-	(12,267,347)	(6,708,561)	(8,575,296)	(11,565,293)	(2,910,569)
Outflow	981,522	41,300,069	-	12,142,397	6,457,376	8,413,964	11,375,763	2,910,569
	<b>170,534,086</b>	<b>174,111,607</b>	<b>25,623,095</b>	<b>88,281,808</b>	<b>22,701,660</b>	<b>20,212,512</b>	<b>10,721,205</b>	<b>6,571,327</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Liquidity risk (continued):

Remaining maturities of non-cash loans are as follows:

<b>31 December 2014</b>	<b>No Maturity</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Total</b>
Letters of Credit	3,249,711	302,441	822,863	2,771,409	59,977	-	7,206,401
Letters of Guarantee	20,355,616	438,422	1,633,485	5,944,960	4,358,238	884,223	33,614,944
Acceptance	37,324	191,461	538,702	438,740	23,504	-	1,229,731
Other	7,934	1,879	15,291	12,886	35,440	690,667	764,097
<b>Total</b>	<b>23,650,585</b>	<b>934,203</b>	<b>3,010,341</b>	<b>9,167,995</b>	<b>4,477,159</b>	<b>1,574,890</b>	<b>42,815,173</b>

  

<b>31 December 2013</b>	<b>No Maturity</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Total</b>
Letters of Credit	3,049,754	226,328	751,540	2,300,112	93,515	-	6,421,249
Letters of Guarantee	17,552,272	594,791	1,642,000	5,588,081	3,404,725	728,988	29,510,857
Acceptance	26,160	282,825	191,936	964,702	29,323	-	1,494,946
Other	8,494	696	9,193	23,639	50,312	492,728	585,062
<b>Total</b>	<b>20,636,680</b>	<b>1,104,640</b>	<b>2,594,669</b>	<b>8,876,534</b>	<b>3,577,875</b>	<b>1,221,716</b>	<b>38,012,114</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

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As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Liquidity risk (continued):

Remaining maturities of derivative instruments are as follows:

<b>31 December 2014</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Total</b>
Purchase of Forward Contracts	1,701,540	621,552	823,023	495,025	-	3,641,140
Sale of Forward Contracts	1,690,151	621,270	823,809	505,445	-	3,640,675
Purchase of Swap Contracts	12,030,882	2,227,273	4,451,807	11,006,407	2,866,138	32,582,507
Sale of Swap Contracts	10,671,538	2,178,118	4,271,913	10,875,880	2,866,138	30,863,587
Purchase of Futures Contracts	-	-	-	-	-	-
Sale of Futures Contracts	-	-	-	-	-	-
Purchase of Options	1,319,368	1,541,247	990,593	396,894	574,458	4,822,560
Sale of Options	1,314,392	1,566,608	980,431	396,890	574,458	4,832,779
Other	1,457,576	445,229	175,687	-	-	2,078,492
<b>Total</b>	<b>30,185,447</b>	<b>9,201,297</b>	<b>12,517,263</b>	<b>23,676,541</b>	<b>6,881,192</b>	<b>82,461,740</b>

**TÜRKİYE İŞ BANKASI A.Ş.**

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As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**

<b>31 December 2013</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Total</b>
Purchase of Forward Contracts	1,931,447	929,102	1,563,470	137,617	-	4,561,636
Sale of Forward Contracts	1,938,462	945,983	1,566,678	137,435	-	4,588,558
Purchase of Swap Contracts	9,363,548	4,703,135	3,701,449	11,075,371	2,340,398	31,183,901
Sale of Swap Contracts	9,279,628	4,670,697	3,682,428	10,886,023	2,340,398	30,859,174
Purchase of Futures Contracts	-	-	-	-	-	-
Sale of Futures Contracts	-	358	-	-	-	358
Purchase of Options	919,955	835,986	3,164,858	352,305	570,171	5,843,275
Sale of Options	924,307	840,338	3,164,858	352,305	570,171	5,851,979
Other	52,397	240,338	145,519	-	-	438,254
<b>Total</b>	<b>24,409,744</b>	<b>13,165,937</b>	<b>16,989,260</b>	<b>22,941,056</b>	<b>5,821,138</b>	<b>83,327,135</b>

## TÜRKİYE İŞ BANKASI A.Ş.

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### 30. RISK MANAGEMENT (continued)

#### Interest rate risk:

The Bank is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e., price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, the interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are customer deposits. Because of the duration gap between funding liabilities and interest bearing assets, a significant increase in interest rates may cause the Bank to incur significant costs. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Bank. Progressive forecasting is determined with simulation reports, interest rate fluctuations effect are identified with sensitivity reports and scenario analysis. The cash need in the terms is determined with gap analysis.

<b>31 December 2014</b>	<b>EURO</b>	<b>USD</b>	<b>TL</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<u>Assets</u>			
Cash and cash equivalents and balances with the Central Bank	-	-	1.51
Loans and advances to banks	0.14	0.52	7.06
<u>Investment securities</u>			
Financial assets at fair value through profit or loss	1.93	4.05	4.82
Available for sale investment securities	4.61	4.53	8.78
Held to maturity investment securities	2.13	0.70	10.34
Loans	4.36	4.60	12.29
<u>Liabilities</u>			
Bank deposits	0.65	1.15	10.14
Other deposits	1.32	1.54	7.03
Funds borrowed	1.14	2.09	9.33
Obligations under repurchase agreements	1.60	1.05	9.95
Debt securities issued	1.94	4.57	9.39
<b>31 December 2013</b>			
	<b>EURO</b>	<b>USD</b>	<b>TL</b>
	<b>%</b>	<b>%</b>	<b>%</b>
<u>Assets</u>			
Loans and advances to banks	0.15	0.27	4.86
<u>Investment securities</u>			
Financial assets at fair value through profit or loss	3.15	4.59	12.02
Available for sale investment securities	4.60	4.23	8.09
Held to maturity investment securities	1.29	0.05	11.83
Loans	3.95	4.41	11.61
<u>Liabilities</u>			
Bank deposits	1.83	0.86	6.65
Other deposits	2.03	2.08	6.38
Funds borrowed	1.35	2.01	7.35
Obligations under repurchase agreements	1.56	1.20	7.45
Debt securities issued	-	5.15	8.40

## TÜRKİYE İŞ BANKASI A.Ş.

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### 30. RISK MANAGEMENT (continued)

#### Interest rate risk (continued):

The sensitivity of the Bank's assets and liabilities has been analysed by assuming that the year end balances are deemed to be the same throughout the year.

During the measurement of the Bank's interest rate sensitivity, the difference between the portfolio values of the asset and liability items evaluated with market value and the portfolio value calculated by using the interest shock applied discount curve, is considered as the reflection of the interest shock to the profit/loss accounts.

On the other hand, in the profit/loss calculation of assets and liabilities that are not evaluated by the current markets price, it is assumed that assets and liabilities with fixed interest rates will be renewed at maturity date and the assets and liabilities with variable interest rates will be renewed at the end of the repricing period with the market interest rates generated after the interest shock.

% Change in Interest Rate (*)		31 December 2014		31 December 2013	
		Effect On Profit/Loss (**)	Effect on Equity (***)	Effect On Profit/Loss (**)	Effect on Equity (***)
TL	FC(****)				
1% increase	1% increase	(227,340)	(707,204)	(194,306)	(480,678)
1% decrease	1% decrease	268,144	769,977	205,131	512,920

(\*)The effects on the profit/loss and shareholders' equity are stated with their before tax values.

(\*\*)The effect on the profit/loss is mainly arising from the fact that the average maturity of the Bank's fixed rate liabilities is shorter than the average maturity of its fixed rate assets.

(\*\*\*)The effect on the shareholders' equity is arising from the change of the fair value of securities followed under Financial Assets Available for Sale.

(\*\*\*\*)Due to the reason that the LIBOR rates were at low levels in both of the periods, the negative shock imposed on FC interest rates in some maturity brackets remained below the aforementioned rates.

#### Other price risks

The Bank is exposed to equity share risk arising from its available for sale investments, which are traded on the Istanbul Stock Exchange. As of the reporting date, in case all other variables are constant and the share prices are 10% more/less; unless the equity share investments classified as available for sale investments are disposed of or impaired, the net profit/loss will not be effected, TL 725,125 increase/decrease is anticipated in the marketable securities unrealised gain/loss on available for sale account under the shareholders' equity (31 December 2013: TL 558,570 increase/decrease).



**TÜRKİYE İŞ BANKASI A.Ş.**

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Interest rate risk (continued):

Interest rate risk analysis of financial assets and financial liabilities are summarised in the table below:

<b>31 December 2014</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
<b>ASSETS</b>							
Cash and cash equivalents		-	-	-	-	2,501,757	2,501,757
Balances with the central bank	3,106,672	-	-	-	-	18,942,876	22,049,548
Loans	717,566	49,094	109,817	1,739	-	515,005	1,393,221
Financial assets at fair value through profit or loss	335,008	386,705	375,316	132,071	8,468	687	1,238,255
Available for sale investment securities	5,198,759	6,313,786	8,810,139	9,769,971	9,109,597	53,794	39,256,046
Held-to-maturity investment securities	40,639	352,297	895,947	12,221	-	-	1,301,104
Loans and advances to customers (*)	23,176,955	29,583,047	34,687,158	53,622,113	13,581,068	162,256	154,812,597
<b>LIABILITIES</b>							
Deposits	71,775,591	25,224,702	6,042,407	1,082,397	-	29,426,094	133,551,191
Funds borrowed	1,893,713	11,956,994	5,349,797	102,594	1,354,184	-	20,657,282
Debt securities issued	1,757,525	2,540,308	4,211,154	5,206,662	3,416,873	-	17,132,522
Subordinated liabilities	-	-	-	-	3,268,784	-	3,268,784
Obligations under repurchase agreements	16,677,711	237,610	668,740	112,055	-	-	17,696,116
<b>31 December 2013</b>	<b>Up To 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Years</b>	<b>5 Years and Over</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
<b>ASSETS</b>							
Cash and cash equivalents		-	-	-	-	2,152,335	2,152,335
Balances with the central bank	-	-	-	-	-	20,807,718	20,807,718
Loans	998,639	9,107	27,373	21,169	-	471,322	1,527,610
Financial assets at fair value through profit or loss	525,710	696,723	609,748	243,837	126,708	832	2,203,558
Available for sale investment securities	6,966,296	4,027,216	6,261,904	5,680,266	5,340,061	44,002	28,319,745
Held-to-maturity investment securities	150,501	906,709	6,570,238	-	-	-	7,627,448
Loans and advances to customers (*)	27,594,827	21,614,460	28,371,035	43,826,880	12,915,324	29,073	134,351,599
<b>LIABILITIES</b>							
Deposits	67,214,599	20,251,423	7,736,208	173,771	-	25,598,764	120,974,765
Funds borrowed	4,560,018	6,728,583	3,284,981	431,857	904,507	-	15,909,946
Debt securities issued	1,039,817	1,269,975	2,693,928	4,041,087	1,035,198	-	10,080,005
Subordinated liabilities	-	-	-	-	2,984,143	-	2,984,143
Obligations under repurchase agreements	19,851,877	418,461	645,940	-	-	-	20,916,278

(\*)The loan balance does not include non-performing loans and reserves.

## TÜRKİYE İŞ BANKASI A.Ş.

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

### 30. RISK MANAGEMENT (continued)

#### Credit risk:

Credit risk refers to the risk that a contractual partner defaults on its contractual obligations or does not deliver in full accordance with the conditions of contract. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Bank places strong emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets. The credit portfolio is monitored according to various criteria including industry sector, geographical area and risk categories.

The Bank is evaluating the quality of the loan portfolio by application of different rating/scoring models to individual loans, commercial/corporate loans and credit cards. The rating/scoring results related to the cash commercial and corporate loans portfolio are classified as "Strong", "Standard" and "Below Standard" by considering their default features. The loans whose borrowers' capacity to fulfil their obligations is very good, are defined as "Strong", whose borrowers' capacity to fulfil its obligations in due time is reasonable, are defined as "Standard" and whose borrowers' capacity to fulfil their obligations is poor, are defined as "Below Standard". The percentage of the portfolio according to the rating/scoring results is as follows:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Strong	52.37%	49.38%
Standard	37.28%	37.02%
Below Standard	6.72%	4.71%
No rated/Scored	3.63%	8.89%

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Credit risk (continued):

The Bank's ratings assigned by international rating agencies, Moody's, Fitch Ratings and Standard & Poor's ratings are as follows:

<b>Moody's</b>	<b>Notes</b>
Financial Strength Rating	D+ (Stable)
Long Term Foreign Currency Deposits	Baa3 (Negative)
Long Term TL Deposits	Baa3 (Negative)
Short Term Foreign Currency Deposits	P-3
Short Term TL Deposits	P-3

  

<b>Fitch Ratings</b>	<b>Notes</b>
Long Term Foreign Currency Loan	BBB- (Stable)
Long Term TL Loans	BBB- (Stable)
Short Term Foreign Currency Loan	F3
Short Term TL Loans	F3
National Long Term Outlook	AA+ (tur)(Stable)
Individual	bbb-
Support	3

  

<b>Standard &amp; Poor's</b>	<b>Notes</b>
Long Term Loans	BB+ (Negative)
Short Term Loans	B
Long Term national outlook	TrAA+
Short Term national outlook	trA-1

**The dates below given are on which the Bank's credit ratings/outlook was last updated:**

Moody's: 03 June 2014, Fitch Ratings: 24 June 2014, Standard & Poor's:11 February 2014.

**TÜRKİYE İŞ BANKASI A.Ş.**

Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Credit risk (continued):

The aging analysis of past due but not impaired loans is as follows:

<b>31 December 2014</b>	<b>1-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>Total</b>
Loans:				
Corporate / Commercial Loans (*)	255,992	46,517	29,711	332,220
Consumer Loans (*)	111,010	38,005	14,614	163,629
Credit Cards	458,529	127,508	55,121	641,158
	<b>825,531</b>	<b>212,030</b>	<b>99,446</b>	<b>1,137,007</b>

(\*) The remaining instalments of the above overdue commercial loans and consumer loans are TL 724,441 and TL 1,391,473 respectively.

<b>31 December 2013</b>	<b>1-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>Total</b>
Loans:				
Corporate / Commercial Loans (*)	197,912	43,257	21,287	262,456
Consumer Loans (*)	81,125	29,178	13,501	123,804
Credit Cards	499,098	118,302	53,962	671,362
	<b>778,135</b>	<b>190,737</b>	<b>88,750</b>	<b>1,057,622</b>

(\*) The remaining instalments of the above overdue commercial loans and consumer loans are TL 606,313 and TL 1,004,945 respectively.

The statement of carrying values of the financial assets, whose maturity and agreement terms are renegotiated, is stated below:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Loans:		
Corporate / Commercial Loans	60,671	99,544
Consumer Loans	3,325,329	3,533,637
Credit Cards	250,261	176,538
	<b>3,636,261</b>	<b>3,809,719</b>

In the event that a deterioration in the financial condition or in the cash flow of the debtor is evidenced, or there is sufficient proof or risk that repayment will not be made in a timely manner and in accordance with the conditions as set forth in the applicable loan agreement, loans and receivables are allocated to closely monitored loans group and monitored by the credit departments. It is not required to provide any specific reserve for this group of loans, Loans whose maturity exceeds 30 days, but which do not meet the requirements to be classified as non-performing loans are also classified in this group of loans.

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***30. RISK MANAGEMENT (continued)**Credit risk (continued):

The fair value of the collaterals and other guarantees received by the Bank for closely monitored loans are given below in terms of collateral type:

<b>Type of Collateral</b>	<b>Fair Value of the Collateral 31 December 2014</b>	<b>Total Loan Balance 31 December 2014</b>	<b>Fair Value of the Collateral 31 December 2013</b>	<b>Total Loan Balance 31 December 2013</b>
Mortgage (*)	833,332	833,332	582,828	582,828
Vehicle Pledge	102,989	102,989	109,493	109,493
Cash Collateral (Cash, securities pledge, pledge on wages, cheques and notes etc.)	309,336	309,336	236,436	236,436
Other (surety, commercial enterprise under pledge etc.)	614,712	614,712	308,302	308,302
Not-collateralized	-	829,690	-	847,602
<b>Total</b>	<b>1,860,369</b>	<b>2,690,059</b>	<b>1,237,059</b>	<b>2,084,661</b>

(\*) The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports, and after comparing the results to the mortgage/pledge amounts and loan balances, the smallest figures are considered to be the net value of collaterals.

The net values of the collaterals of non-performing loans are given below in terms of collateral types:

<b>Type of Collateral</b>	<b>Net Value of the Collateral 31 December 2014</b>	<b>Total Loan Balance 31 December 2014</b>	<b>Net Value of the Collateral 31 December 2013</b>	<b>Total Loan Balance 31 December 2013</b>
Mortgage (*)	278,642	278,642	354,879	354,879
Cash Collateral (Cash, securities pledge, pledge on wages, cheques and notes etc.)	-	-	157	157
Vehicle Pledge	49,746	49,746	53,749	53,749
Other (surety, commercial enterprise under pledge, commercial papers, etc.)	50,947	50,947	23,247	23,247
<b>Total</b>	<b>379,335</b>	<b>379,335</b>	<b>432,032</b>	<b>432,032</b>

(\*) The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports, and after comparing the results to the mortgage/pledge amounts and loan balances the smallest figures are considered to be the net value of collaterals.

## **TÜRKİYE İŞ BANKASI A.Ş.**

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

### **31. SEGMENT REPORTING**

The Bank's operations are classified as corporate, commercial, retail and private banking, as well as treasury/investment banking.

The Bank provides services to the large corporations, SMEs and other trading companies (excluding real trading persons) within the course of its corporate and commercial operations through various financial media. Services such as project financing, operating and investment loans, deposit and cash management, credit cards, cheques and bills, foreign trade transactions and financing, letter of guarantee, letter of credit, forfeiting, foreign currency trading, bill collections, payrolls, investment accounts, tax collections and other banking services are being provided for the aforementioned customer segments.

Services are being provided to individuals, real trading persons and non-trading corporations and institutions within the context of "Retail Banking". This customer segment's requirements are met by banking services such as deposits, consumer loans, overdraft accounts, credit cards, bill collections, remittances, foreign currency trading, safe-deposit boxes, insurance, tax collections, investment accounts and by other banking services. As for the private banking category, any kind of financial and cash management services are provided for individuals in the high-income group.

Within the context of treasury transactions, medium and long term funding is being fulfilled by tools such as security trading, money market transactions, spot and instalment based TL and foreign currency trading, and derivative transactions such as forward, swap, futures and options, as well as syndication and securitization.

The Bank's participations and subsidiaries operating in financial and real sector are evaluated within the context of investment banking. Details about the Bank's participations and subsidiaries are disclosed in Note 10.

**TÜRKİYE İŞ BANKASI A.Ş.**

## Notes to the Separate Financial Statements

As at and for the Year Ended 31 December 2014

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

**31. SEGMENT REPORTING (continued)***Statement of financial position and profit/loss items' segment distribution as at 31 December 2014*

	Corporate	Commercial	Retail	Private	Treasury/ Investment	Not Classified	Total
<b>OPERATING INCOME/EXPENSE</b>							
<b>Interest income</b>							<b>16,102,090</b>
Interest income on loans	2,770,826	5,802,376	3,848,887	23,248	-	254,447	12,699,784
Interest income on securities	-	-	-	-	3,362,323	-	3,362,323
Interest income on banks	-	-	-	-	20,902	-	20,902
Other interest income	-	-	-	-	89	18,992	19,081
<b>Interest expense</b>							<b>(8,631,691)</b>
Interest expense on deposits	(806,716)	(917,200)	(2,418,851)	(1,034,964)	-	(503,638)	(5,681,369)
Interest expense on funds borrowed	-	-	-	-	(482,494)	-	(482,494)
Interest expense on money market transactions	-	-	-	-	(1,387,475)	-	(1,387,475)
Interest expense on bond issued	-	-	-	-	(1,019,320)	-	(1,019,320)
Other interest expense	-	-	-	-	-	(61,033)	(61,033)
<b>Net interest income</b>							<b>7,470,399</b>
<b>Net fee and commission income</b>							<b>2,003,778</b>
Fee and commission received	312,278	1,121,016	864,371	11,742	-	25,244	2,334,651
Fee and commission paid	-	-	-	-	-	(330,873)	(330,873)
Securities trading and derivative income (net)	-	-	-	-	(445,362)	-	(445,362)
Foreign exchange losses (net)	-	-	-	-	630,867	-	630,867
Dividend income	-	-	-	-	594,982	-	594,982
Other income	-	-	-	-	-	568,826	568,826
Reversal of impairment losses on loans	-	-	-	-	(3)	(729,206)	(729,209)
General administrative and other operating expenses	(45,294)	(679,388)	(1,413,959)	(11,930)	-	(3,472,408)	(5,622,979)
<b>Income before tax</b>							<b>4,471,302</b>
<b>Income tax expense</b>							<b>(797,532)</b>
<b>Net profit for the year</b>							<b>3,673,770</b>
<b>SEGMENT ASSETS</b>							
Fin.Assets At Fair Value Through P/L	-	-	-	-	264,946	-	264,946
Derivative financial assets held for trading	-	-	-	-	973,309	-	973,309
Loans and advances to banks	-	-	-	-	1,393,221	-	1,393,221
Available for sale investment securities	-	-	-	-	39,256,046	-	39,256,046
Held-to-maturity investment securities	-	-	-	-	1,301,104	-	1,301,104
Investments in equity participations	-	-	-	-	9,658,887	-	9,658,887
Loans and advances to customers (*)	50,729,870	62,781,811	36,262,326	250,548	-	4,788,042	154,812,597
Other	-	-	-	-	-	28,388,698	28,388,698
<b>Total assets</b>							<b>236,048,808</b>
<b>SEGMENT LIABILITIES</b>							
Deposits	18,924,672	26,510,255	58,389,835	17,447,516	-	12,278,913	133,551,191
Derivative financial liabilities held for trading	-	-	-	-	630,151	-	630,151
Obligations under repurchase agreements	-	-	-	-	17,696,116	-	17,696,116
Debt securities issued	-	-	-	-	17,132,522	-	17,132,522
Subordinated liabilities	-	-	-	-	3,268,784	-	3,268,784
Funds borrowed	-	-	-	-	20,657,282	-	20,657,282
Provisions	-	-	-	-	-	3,711,931	3,711,931
Other	-	-	-	-	-	8,328,738	8,328,738
Shareholders' equity	-	-	-	-	-	31,072,093	31,072,093
<b>Total liabilities</b>							<b>236,048,808</b>

(\*) The loan balance does not include non-performing loans and reserves.

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*(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)***31. SEGMENT REPORTING (continued)***Statement of financial position and profit/loss items' segment distribution as at 31 December 2013*

	Corporate	Commercial	Retail	Private	Treasury/ Investment	Not Classified	Total
<b>OPERATING INCOME/EXPENSE</b>							
<b>Interest income</b>							<b>13,455,432</b>
Interest income on loans	2,380,559	4,529,831	3,234,553	39,690	-	205,890	10,390,523
Interest income on securities	-	-	-	-	3,014,775	-	3,014,775
Interest income on banks	-	-	-	-	8,190	-	8,190
Other interest income	-	-	-	-	167	41,777	41,944
<b>Interest expense</b>							<b>(6,805,252)</b>
Interest expense on deposits	(933,631)	(724,155)	(1,673,395)	(1,086,472)	-	(436,758)	(4,854,411)
Interest expense on funds borrowed	-	-	-	-	(338,799)	-	(338,799)
Interest expense on money market transactions	-	-	-	-	(946,292)	-	(946,292)
Interest expense on bond issued	-	-	-	-	(584,757)	-	(584,757)
Other interest expense	-	-	-	-	-	(80,993)	(80,993)
<b>Net interest income</b>							<b>6,650,180</b>
<b>Net fee and commission income</b>							<b>1,929,831</b>
Fee and commission received	281,772	966,744	865,311	22,837	-	24,778	2,161,442
Fee and commission paid	-	-	-	-	-	(231,611)	(231,611)
Securities trading and derivative income (net)	-	-	-	-	(93,743)	-	(93,743)
Foreign exchange losses (net)	-	-	-	-	320,668	-	320,668
Dividend income	-	-	-	-	450,312	-	450,312
Other income	-	-	-	-	-	432,691	432,691
Reversal of impairment losses on loans	-	-	-	-	(26,721)	(282,057)	(308,778)
General administrative and other operating expenses	(71,928)	(814,927)	(1,453,675)	(28,826)	-	(2,741,969)	(5,111,325)
<b>Income before tax</b>							<b>4,269,836</b>
<b>Income tax expense</b>							<b>(704,179)</b>
<b>Net profit for the year</b>							<b>3,565,657</b>
<b>SEGMENT ASSETS</b>							
Trading investment securities	-	-	-	-	890,985	-	890,985
Derivative financial assets held for trading	-	-	-	-	1,312,573	-	1,312,573
Loans and advances to banks	-	-	-	-	1,527,610	-	1,527,610
Available for sale investment securities	-	-	-	-	28,319,745	-	28,319,745
Held-to-maturity investment securities	-	-	-	-	7,627,448	-	7,627,448
Investments in equity participations	-	-	-	-	7,778,938	-	7,778,938
Loans and advances to customers (*)	44,128,447	52,151,330	33,352,400	501,812	-	4,217,610	134,351,599
Other	-	-	-	-	-	27,238,435	27,238,435
<b>Total assets</b>							<b>209,047,333</b>
<b>SEGMENT LIABILITIES</b>							
Deposits	18,489,358	23,928,060	47,392,329	22,226,914	-	8,938,104	120,974,765
Derivative financial liabilities held for trading	-	-	-	-	981,522	-	981,522
Obligations under repurchase agreements	-	-	-	-	20,916,278	-	20,916,278
Debt securities issued	-	-	-	-	10,080,005	-	10,080,005
Subordinated liabilities	-	-	-	-	2,984,143	-	2,984,143
Funds borrowed	-	-	-	-	15,909,946	-	15,909,946
Provisions	-	-	-	-	-	3,639,221	3,639,221
Other	-	-	-	-	-	8,512,638	8,512,638
Shareholders' equity	-	-	-	-	-	25,048,815	25,048,815
<b>Total liabilities</b>							<b>209,047,333</b>

(\*) The loan balance does not include non-performing loans and reserves.



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### 31. SEGMENT REPORTING (continued)

Information on geographical distribution of total loans:

The Bank's operations are mainly concentrated in domestic market, and thus domestic loans of the Bank comprise 98.7% of its total loans. Distribution of total loans is stated below:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Domestic Loans	152,794,491	132,490,116
Foreign Loans	<u>2,018,106</u>	<u>1,861,483</u>
	<b>154,812,597</b>	<b>134,351,599</b>

### 32. EARNINGS PER C CLASS SHARE

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

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

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

	<u>31 December 2014</u>	<u>31 December 2013</u>
Profit available to C class shareholders	3,673,770	3,565,657
Weighted average number of shares during the year (Million)	112,502	112,502
<b>Earnings per C class share (TL per share)</b>	<u><b>0.0306</b></u>	<u><b>0.0316</b></u>

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### **33. SUBSEQUENT EVENTS**

It was announced within the context of public disclosure dated 30 September 2014 that the Board of Directors of the Bank had decided to increase the paid-in capital of the subsidiary CJSC İşbank to 5,184 million Rubles by increasing 3,040 million Rubles, and it was also decided to exercise Bank's preferential rights amounting to 3,040 million Rubles arising from the capital increase. The amount related to the mentioned preferential rights amounting to 3,040 million Rubles was paid on 21 January 2015.

Between 1 January 2015 and 30 April 2015 the Bank carried out several issues of bills and bonds that are denominated in TL, USD and EURO. Nominal values of TL denominated issues amount to TL 3,520 million (TL full) with interest rates ranging between 8.41% and 9.68%, and redemption dates between 16 June 2015 and 09 May 2016. Nominal values of USD denominated issues amount to USD 714.9 million with interest rates ranging between 1.28% and 3.33%, and redemption dates between 7 May 2015 and 27 March 2018. Nominal values of EURO denominated issues amount to EURO 118.6 million with interest rate ranging between 0,89% and 1,24%, and redemption dates between 15 July 2015 and 18 April 2016.

On 30 March 2015 Türkiye İş Bankası A.Ş. finalized a Diversified Payment Rights (DPR) securitization transaction with an amount of USD 555 million and the related funds are obtained. USD 480 million out of the total funding amount has a final maturity of 5 years, USD 60 million has a final maturity of 7 years and USD 15 million has a final maturity of 15 years.

Within the framework of the Resolution of the Board of Directors of Türkiye İş Bankası A.Ş. (İşbank) dated 29.04.2015, it has been decided to sell all of Bank's stake in Avea İletişim Hizmetleri A.Ş. (Avea) share capital to Türk Telekomünikasyon A.Ş.. The shares represent 7.44% of Avea's capital and has a nominal value of TL 610 million (TL full). The sale price of Bank's stake is 651 million (TL full), which will be paid approximately in 4.5 years in 6 installments after the share transfer date.