

Fibabanka Anonim Őirketi and Its Subsidiary

Consolidated Financial Statements

As at and for the year ended

31 December 2014

Together with the Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of
Fibabanka Anonim Şirketi
İstanbul

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Fibabanka A.Ş. (the "Bank") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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



DRT BAĐIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŐAVİRLİK A.Ő.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Istanbul, 9 March 2015

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Fibabanka Anonim Şirketi
Consolidated Statement of Financial Position
As at 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Assets			
Cash and balances with Central Bank	7	1,023,109	804,527
Due from banks		286,068	261,159
- <i>Due from banks</i>	8	262,879	214,462
- <i>Money market placements</i>	8	23,189	46,697
Financial assets at fair value through profit and loss		32,640	75,493
- <i>Debt instruments</i>	9	19,849	16,986
- <i>Derivatives held for trading purpose</i>	9	12,791	58,507
Financial assets available for sale	9	381,909	265,644
Loans and advances to customers	10	6,167,735	5,153,466
Property and equipment	12	32,422	33,651
Intangible assets	13	5,337	6,986
Deferred tax assets	20	3,506	14,842
Other assets	11	84,872	18,636
Total Assets		8,017,598	6,634,404
Liabilities			
Derivatives held for trading purpose	9	11,712	80,718
Deposits from banks		484,825	445,802
- <i>Deposits from banks</i>	14	158,848	219,814
- <i>Obligations under repurchase commitments</i>	14	325,977	225,988
Borrowings from banks	17	846,349	559,081
Deposits from customers	15	5,082,517	4,323,235
Securities issued	18	472,935	297,160
Subordinated loans	19	291,574	275,420
Other liabilities and provisions	16	186,127	108,620
Total Liabilities		7,376,039	6,090,036
Equity			
Share capital	21	552,523	552,523
Items that may be reclassified subsequently to profit or loss			
- <i>Unrealized gains / (losses) on available-for-sale investments, net of tax</i>	23	(8,363)	(24,057)
Items that will not be reclassified subsequently to profit or loss			
- <i>Actuarial losses on employee termination benefits</i>		(2,174)	(1,346)
Retained earnings / (accumulated losses)	22	99,520	17,194
Equity attributable to owners of the bank		641,506	544,314
Non-controlling interest		53	54
Total shareholders' equity		641,559	544,368
Total liabilities and shareholders' equity		8,017,598	6,634,404

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

Fibabanka Anonim Şirketi
Consolidated Statement of Profit or Loss
For the year ended 31 December 2014
(Currency: Amounts expressed in Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>1 January - 31 December 2014</u>	<u>1 January - 31 December 2013</u>
Interest income	26	725,453	491,948
Interest expense	26	(404,697)	(272,962)
Net interest income		320,756	218,986
Fees and commission income	27	29,037	19,443
Fees and commission expenses	27	(10,769)	(6,117)
Net fee and commission income		18,268	13,326
Net trading income	28	3,336	8,866
Other operating income	29	8,371	9,180
		11,707	18,046
Operating income		350,731	250,358
Personnel expenses	30	(119,152)	(89,954)
Depreciation and amortisation	12,13	(13,653)	(9,676)
Impairment reversals /(losses) on loans and advances to customers	10	(51,252)	(32,879)
Other expenses	31	(63,083)	(47,600)
Profit before income tax		103,591	70,249
Income tax	20	(21,266)	(14,170)
Net Income for the period		82,325	56,079
Net Income attributable to:			
Equity holders of the Bank		82,326	56,080
Non-controlling interests		(1)	(1)
		82,325	56,079

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

Fibabanka Anonim Şirketi

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2014

*(Currency: Amounts expressed in Thousands of Turkish Lira
(TL))*

	1 January-31 December 2014	1 January-31 December 2013
Profit for the year	82,325	56,079
Other comprehensive income / (expense)	--	--
<i>Items that maybe reclassified subsequently to profit or loss</i>		
<i>-Unrealized gains / (losses) on available-for-sale investments, gross</i>	<i>19,617</i>	<i>(30,476)</i>
<i>-Tax effect of unrealized gains / (losses) on available-for-sale investments</i>	<i>(3,923)</i>	<i>6,095</i>
<i>Items that will not be reclassified subsequently to profit or loss</i>		
<i>-Actuarial losses on employee termination benefits</i>	<i>(1,035)</i>	<i>(1,682)</i>
<i>-Tax effect of actuarial losses on employee termination benefits</i>	<i>207</i>	<i>336</i>
Other comprehensive income / (expense) for the year, net of tax	14,866	(25,727)
Total comprehensive income for the year	97,191	30,352
Attributable to:		
Equity Holders of the Bank	97,192	30,353
Non – controlling interest	(1)	(1)

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

Fibabanka Anonim Şirketi

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL))

	Share Capital	Retained earnings / (accumulated losses)	Items that maybe reclassified subsequently to profit or loss	Items that will not be reclassified subsequently to profit or loss	Non-controlling Interest	Total
			Unrealized losses on available for sale investments	Actuarial gains / (losses)		
Balances at 1 January 2013	446.589	(29.386)	324	--	--	417.527
Share capital increase	105.934	(9.502)	--	--	--	96.432
Other	--	2	--	--	--	2
Total comprehensive income for the year	--	56.080	(24.381)	(1.346)	(1)	30.352
Additions to unrealized gains / (losses) on available-for-sale investments, net of deferred tax	--	--	(24.381)	--	--	(24.381)
Actuarial losses on employee termination benefits, net of tax	--	--	--	(1.346)	--	(1.346)
Net profit for the year	--	56.080	--	--	(1)	56.079
Share of non – controlling interest in subsidiary’s capital	--	--	--	--	55	55
Balances at 31 December 2013	552.523	17.194	(24.057)	(1.346)	54	544.368
Total comprehensive income for the year	--	82.326	15.694	(828)	(1)	97.191
Additions to unrealized gains / (losses) on available-for-sale investments, net of deferred tax	--	--	15.694	--	--	15.694
Actuarial losses on employee termination benefits, net of deferred tax	--	--	--	(828)	--	(828)
Net profit for the year	--	82.326	--	--	(1)	82.325
Balances at 31 December 2014	552.523	99.520	(8.363)	(2.174)	53	641.559

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

Fibabanka Anonim Şirketi
Consolidated Statement of Cash Flows
For the year ended 31 December 2014
(Currency: Amounts expressed in Thousands of Turkish Lira (TL))

	Notes	1 January- 31 December 2014	1 January- 31 December 2013
Net profit/(loss) for the year		82,325	56,079
<i>Adjustments for:</i>			
Depreciation of property and equipment	12	9,226	5,794
Amortization of intangible assets	13	4,427	3,882
Impairment losses on loans and advances	10	51,252	32,879
Unearned revenue		(3,228)	3,536
Expense accruals/ (reversals) net		--	3,714
Employment termination benefits	16	1,301	2,949
Unused vacation pay provision		575	--
Other provisions (net)		1,703	2,405
Bonus accrual provision		1,500	2,500
Unrealized gains on financial assets/liabilities		42,585	(9,104)
Taxation	20	21,266	14,170
Operating profit before changes in operating assets/liabilities		212,932	118,804
<i>Changes in operating assets and liabilities:</i>			
Net increase in balances with banks and central bank		(183,554)	(485,176)
Net decrease in financial assets at fair value through profit & loss		(225)	4,953
Net increase in loans		(1,137,752)	(1,963,144)
Net increase in other assets		(67,936)	(7,099)
Net increase in deposits		697,955	1,976,568
Net increase in other taxes & liabilities		77,219	47,765
Employment termination benefits paid	16	(607)	(479)
Taxes Paid		(14,663)	(12,341)
Bonuses paid		(2,500)	(2,568)
Net cash used in operating activities		(419,131)	(322,717)
<i>Cash flow from investing activities:</i>			
Purchase of available-for-sale securities		(236,473)	(268,195)
Proceeds from sale of available-for-sale securities		141,509	78,995
Purchase of premises & equipment	12	(8,003)	(22,941)
Purchase of intangible assets	13	(2,778)	(4,656)
Net cash used in investing activities		(105,745)	(216,797)
<i>Cash flow from financing activities:</i>			
Proceeds from borrowing funding loans (net)		477,412	509,017
Proceeds from capital increase		--	96,432
Proceeds from capital payment (subsidiary)		--	54
Net cash provided by financing activities		477,412	605,503
Net (decrease)/increase in cash & cash equivalents		(47,464)	65,989
Cash & cash equivalents at the beginning of the year	7	195,825	100,478
Foreign exchange effect on cash and cash equivalents		7,412	29,358
Cash & cash equivalents at the end of the year	7	155,773	195,825

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

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

1 General Information

On 21 December 2001, Share Transfer Agreement was signed with Novabank S.A. for the sale of all shares of Sitebank A.Ş. under the control of the Savings Deposit Insurance Fund (“SDIF”) and the sale transaction was approved by the decision of the Banking Regulation and Supervision Agency (“BRSA”) No: 596 on 16 January 2002.

In the General Assembly held on 4 March 2003, the name of Sitebank A.Ş. was amended as BankEuropa Bankası A.Ş..

In the extraordinary General Assembly held on 28 November 2006, the name of Bank Europa Bankası A.Ş. was amended as Millennium Bank A.Ş.

On 10 February 2010, Banco Comercial Portugues S.A. and Credit Europe Bank N.V., which is an affiliate of Fiba Group, signed a share purchase agreement to transfer 95% of the Bank’s shares to Credit Europe Bank N.V. and the legal approval process has been completed as of 27 December 2010. Credit Europe Bank N.V. is 100% owned by Credit Europe Group N.V. which is a banking group incorporated in Netherlands and an affiliate of Fiba Holding A.Ş.

In the extraordinary General Assembly held on 25 April 2011 the name of Millennium Bank A.Ş. has been amended as Fibabanka A.Ş. (“the Bank”).

As of December 2012, Fiba Holding A.Ş. became the ultimate parent of the Bank after acquiring 97.6% of the shares from Credit Europe Bank N.V. on 3 December 2012 and 2.4% of the shares from Banco Comercial Portugues S.A. on 7 December 2012. There were sales of equity shares to the management of the Bank in 2013. Total share of the management is 1.4%.

As of 31 December 2014, the Bank’s paid in capital is TL 550,000. The Bank’s paid in capital which was TL 426,650 as of 31 March 2013 was decided to be increased to TL 550,000 on Board of Directors minutes held on 25 February 2013; increase of TL 17,416 is provided by inflation adjustment to share capital, TL 9,502 is provided by profit on disposal of immovables, and TL 96,432 is paid by Fiba Holding A.Ş. in cash; legal applications have been made for the total increase of TL 123,350 of paid in capital. As of 29 May 2013, legal procedures have been finalized and capital increase recorded in financial statements.

As of 31 December 2014, the Bank has 67 branches and 1,222 employees and its head office is located at the following address: Emirhan Cad. Barbaros Plaza İş Merkezi No: 113 Dikilitaş/Beşiktaş İstanbul. (31 December 2013: 62 branches and 1,152 employees)

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

1. General Information (continued)

Explanations on Subsidiary

Fiba Portföy Yönetimi A.Ş. (“Fiba Portföy”) which is a subsidiary of the Bank, established in September 2013, was consolidated by using full consolidation method in the consolidated financial statements dated 31 December 2014. Fibabanka A.Ş. and Fiba Portföy Yönetimi A.Ş. are together stated as the Group in this report.

Fiba Portföy’s application to Capital Market Board (“CMB”) about portfolio management authorization certificate was issued successfully and PYS. PY 56/1267 numbered 12 December 2013 dated authorization certificate was given to Fiba Portföy.

The aim of Fiba Portföy is to manage portfolios which consist of financial assets within the implementation of CMB’s laws and relevant legislation rules with portfolio management contract as a representative and trade in capital markets. Besides, Fiba Portföy can manage local and foreign investment funds, investment trusts, local/foreign natural and legal people, investment firms and similar enterprises within the circle of legislation conditions as portfolio management activities. Fiba Portföy can also function on investment consulting activity, market consultancy and trading on shares of investment funds at Borsa İstanbul A.Ş. Emerging Companies Market on the condition that articles of the capital market legislation is fulfilled and necessary permission and authorization certificates are taken from Capital Markets Board. The Bank owns 99% of the equity of Fiba Portföy whose headquarters is located in Istanbul.

2. Application of New and Revised International Financial Reporting Standards (IFRSs)

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

None.

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

Amendments to IFRS 10, 11, IAS 27	<i>Investment Entities¹</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities¹</i>
Amendments to IAS 36	<i>Recoverable Amount Disclosures for Non-Financial Assets¹</i>
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting¹</i>
IFRIC 21	<i>Levies¹</i>

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

Amendments to IFRS 10, 12, IAS 27 Investment Entities

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

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

2. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

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

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

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

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

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

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

IFRIC 21 *Levies*

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

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

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

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

¹ Effective for annual periods beginning on or after 1 July 2014.

² Effective for annual periods beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after 1 July 2016.

⁴ Effective for annual periods beginning on or after 1 January 2017.

⁵ Effective for annual periods beginning on or after 1 January 2018.

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

2. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

IFRS 9 Financial Instruments

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual Improvements to 2010-2012 Cycle

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

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

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

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

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

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

Annual Improvements to 2011-2013 Cycle

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

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

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

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

2. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

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

IFRS 14 Regulatory Deferral Accounts

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

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

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

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

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

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

2. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

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

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

Annual Improvements 2012-2014 Cycle

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

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

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

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

Amendments to IAS 1 Disclosure Initiative

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

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

2. Application of New and Revised International Financial Reporting Standards (IFRSs) (continued)

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

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

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

The Group evaluates the effects of these standards on the consolidated financial statements.

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies

(a) Statement of Compliance

The Bank and its subsidiary maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by BRSA; the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP).

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards (“IFRS”). The accompanying financial statements are authorized for issue by the directors on 9 March 2015.

(b) Basis of Preparation

The accompanying financial statements are presented in thousands of TL, which is the Bank’s functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, instruments at fair value through profit or loss and available-for-sale financial assets.

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

(c) Basis of Consolidation

According to full consolidation method, the subsidiary’s 100% of assets, liabilities, revenues, expenditures and off-balance sheet liabilities were combined with the Parent Bank’s assets, liabilities, revenues, expenditures and off-balance sheet liabilities. Book value of the investment in the Group’s subsidiary and the portion of the cost of subsidiary’s capital belonging to the Group are eliminated. All intragroup balances and income and expenses relating to transactions between the Bank and its subsidiary are eliminated in full on consolidation. Minority shares in the net income of consolidated subsidiary determined the net income of the Group and were demonstrated as a separate item in the income statement. Minority shares were presented under equity in the consolidated financial statement.

(d) Use of Estimates and Judgments

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

In preparing these financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2013.

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (Continued)

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the effect on the amounts recognised in the financial statements are described in notes 3.f to 3.t.

(e) Reclassification of Comparative Information

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

(f) Foreign Currency Translation

For the purpose of the accompanying financial statements, the results and consolidated financial position of the Bank is expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

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

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

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

As at 31 December 2014 and 31 December 2013 foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and CHF. Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL	CHF / TL
31 December 2014	2.8207	2.3189	2.3397
31 December 2013	2.9365	2.1343	2.3899

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(g) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Vehicles	5 years
Furniture, fixtures and office equipment and others	4-50 years
Leasehold improvements	Lease period

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

The carrying values of premises 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 recognized in the income statement. There is no impairment recorded related to premises and equipment.

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

(h) Intangible Assets

Intangible assets acquired are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized 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 amortization period and the amortization 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 amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 10 years. There are no intangible assets with indefinite useful lives.

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

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(i) Cash and Cash Equivalents

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

(j) Financial Instruments

(j.1) Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Bank determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Financial Assets at Fair Value through Profit or Loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income.

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. The Group does not have any financial asset classified as held to maturity.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Except for loans and advances designated as hedged item in qualifying hedging relationships and carried at fair value, such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(j.1) Financial Assets (continued)

Available-For-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used. As of 31 December 2014, total amount of financial assets available for sale is TL 381,909 (31 December 2013: TL 265,644), of which TL 363,839 comprises of private bank and corporate bonds denominated in foreign currencies with maturity more than 1 year (31 December 2013: TL 241,646).

Impairment of Financial Assets

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

Assets Carried at Amortized Cost

In determining whether an impairment loss should be recorded in the income statement, 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 Group about the following loss events:

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(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(j.1) Financial Assets (continued)

Impairment of Financial Assets (continued)

Assets Carried at Amortized Cost (continued)

- Significant financial difficulty of the issuer or the obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- 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 amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the 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 realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

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

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

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(j.1) Financial Assets (continued)

Impairment of Financial Assets (continued)

Assets Carried at Amortized Cost (continued)

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 income.

Assets Carried at Cost

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

Assets Carried at Fair Value

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

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 recognized in profit or loss.

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(j.1) Financial Assets (continued)

Derecognition of Financial Assets

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

(j.2) Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in 'other gains/losses' line in the statement of comprehensive income.

Other Financial Liabilities

Other financial liabilities, including borrowings and deposits, are initially measured at fair value, net of transaction costs.

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Derecognition of Financial Liabilities

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

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(j.3) Off- Balance Sheet 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 Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

(j.4) Derivative Financial Instruments

Derivatives Held for Trading

The Group's derivative transactions mainly consist of foreign currency swaps, foreign currency options and forward foreign currency contracts. The Group does not have any embedded derivatives separated from the host contract.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", forward foreign currency purchase/sale contracts, swaps and options are classified as "hedging purpose" and "trading purpose" transactions. Derivatives are initially recognized at cost including the transaction costs. Also, the assets and liabilities arising from the derivative transactions are recorded as off-balance sheet items at their contractual notional amounts. The derivative transactions held for trading are valued at fair-value using market prices or pricing models subsequent to initial recognition and are presented in "derivatives held for trading purpose". Gains and losses arising from a change in the fair value are recognized in the income statement.

Derivatives and Hedge Accounting

The Bank applied fair value hedging until 30 November 2010, which principally consisted of interest rate swaps that are used to hedge changes in the fair value of fixed-rate loans and advances to customers due to changes in market interest rates.

The Bank discontinues hedge accounting when it is determined that: a derivative is not, or has ceased to be, highly effective as a hedge; when the derivative expires, or is sold, terminated, or exercised; when the hedged item matures or is sold or repaid; or when a forecast transaction is no longer deemed highly probable. The fair value differences on loans calculated till the cease date of hedging has been started to be amortized.

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(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(j) Financial Instruments (continued)

(j.5) Netting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(k) Fair Value Considerations

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 amortized 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 Group'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. 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. 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 balance sheet date with the current market rates. The resulting gain or loss is reflected to the income statement. 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.

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(k) Fair Value Considerations (continued)

Loans and Receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

The Group management believes that the risk factors embedded in the initial 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 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.

(l) Non-current Assets Held for Sale

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

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

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3 Significant Accounting Policies (continued)

(m) Employee Benefits

Employee Termination Benefits

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

These payments are qualified as recognized retirement benefit plan according to revised IAS 19 Employee Benefits. Severance payment liability recognized in the balance sheet is calculated according to net present value of expected amount in the future arising from all employees' retirements and presented in the financial statements. All actuarial gains and losses are recognized immediately through other comprehensive income.

As of 31 December 2014, the Group's severance payment provision is calculated by an actuarial firm and the actuarial loss of TL 2,174 (net of deferred taxes) is accounted for under Equity. (31 December 2013: Actuarial loss of TL 1,346.)

The principal actuarial assumptions used at 31 December 2014 and 31 December 2013 are as follows;

	31 December 2014	31 December 2013
	%	%
Discount rate	8.2	9.8
Inflation rate	6.0	6.5

The computation of the liability is predicated upon retirement pay ceiling announced by the Government. The ceiling amount at 31 December 2014 was TL 3,438.22 (full basis) (31 December 2013: TL 3,254.44 (full basis)).

Other Contributions

The Group pays contributions to Social Security Funds on a mandatory basis. There are no other liabilities related to employee benefits to be provisioned.

(n) Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(o) Leases

The Bank as Lessee

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch and head office premises, which are cancellable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period expires, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(p) Income and Expense Recognition

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

Fees and commissions are generally recognized 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 recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

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

Net trading income comprises gains minus losses related to financial assets and liabilities held for trading and includes all realised and unrealised fair value changes and foreign exchange differences.

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

3 Significant Accounting Policies (continued)

(r) Income Tax

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

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

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred Tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

(s) Subsequent Events

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

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

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(t) Segment Reporting

A segment is a distinguishable component of the Bank that is engaged 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.

4 Segment Reporting

Segment information is presented in respect of the Bank's business segments. The Bank comprises the Retail, Commercial Banking and Treasury as main business segments. Fiba Portföy, the Bank's consolidated subsidiary, is operating in the area of portfolio management.

Major financial statement items according to business lines:

	Corporate & Commercial Banking	Retail Banking	Treasury & Head Office	Total
<u>1January -</u>				
<u>31 December 2014</u>				
Operating income	183,613	156,529	10,589	350,731
Profit before tax	104,241	6,408	(7,058)	103,591
Tax charge				(21,266)
Net profit				<u>82,325</u>
<u>31 December 2014</u>				
Segment assets	4,098,298	2,018,668	1,900,632	8,017,598
Unallocated assets				--
Total assets				<u>8,017,598</u>
Segment liabilities	1,323,725	3,763,662	2,288,652	7,376,039
Unallocated liabilities				--
Equity				641,559
Total liabilities and equity				<u>8,017,598</u>
	Corporate & Commercial Banking	Retail Banking	Treasury & Head Office	Total
<u>1January -</u>				
<u>31 December 2013</u>				
Operating income	138,265	100,111	11,982	250,358
Profit before tax	74,650	12,324	(16,725)	70,249
Tax charge				(14,170)
Net profit				<u>56,079</u>
<u>31 December 2013</u>				
Segment assets	3,490,829	1,634,289	1,509,286	6,634,404
Unallocated assets				--
Total assets				<u>6,634,404</u>
Segment liabilities	1,141,791	3,109,902	1,838,343	6,090,036
Unallocated liabilities				--
Equity				544,368
Total liabilities and equity				<u>6,634,404</u>

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5 Financial Risk Management

(a) Introduction and Overview

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

- Credit Risk
- Liquidity Risk
- Market Risks
- Operational Risks

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

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Risk Committee of the Bank is responsible for developing and monitoring the Group's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

The Bank Audit Committee is responsible to monitor the efficiency and adequacy of the Group's Internal Control Systems framework on behalf of the Board of Directors. The Bank Audit Committee is assisted in these functions by Risk Management, Internal Control, Legislation & Compliance and Internal Audit departments.

(b) Credit Risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty fails to meet its contractual obligations to a financial instrument, among the Bank's corporate, retail or bank loan portfolio. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as individual risk, counterparty risk, group risk as well as country & sector risks.

The Group's counterparty credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the balance sheet.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group only deals with counterparties which have good credit worthiness.

The Group has defined rating models, and validation standards in order to estimate, identify measure, monitor, dispose, reduce and manage the credit risk. These standards have been developed to determine the quality of credit customers in line with the Group's credit policy. Credit risk reports and concentration & risk limits concerning the Bank's loan portfolio are reviewed periodically by the Risk Management Department.

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

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5 Financial Risk Management (continued)

(b) Credit Risk (continued)

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

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

Cash Loans	31 December 2014		
	Performing	Non-Performing (*)	Total
Secured loans:	6,006,139	59,875	6,066,014
Secured by cash collateral	1,850	--	1,850
Secured by mortgages	1,880,232	58,313	1,938,545
Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes)	4,124,057	1,562	4,125,619
Unsecured loans	100,383	68,850	169,233
Total Cash Loans	6,106,522	128,725	6,235,247

(*) The loan balance excludes allowance for loan losses.

Cash Loans	31 December 2013		
	Performing	Non-Performing (*)	Total
Secured loans:	5,076,815	16,376	5,093,190
Secured by cash collateral	11,576	--	11,576
Secured by mortgages	1,731,507	15,322	1,746,829
Other collateral (pledge on assets, vehicle, corporate and personal guarantees, promissory notes)	3,333,731	1,054	3,334,785
Unsecured loans	63,683	44,039	107,722
Total Cash Loans	5,140,498	60,415	5,200,913

(*) The loan balance excludes allowance for loan losses.

The breakdown of non-cash loans by type of collateral is as follows:

Non-Cash Loans	31 December 2014	31 December 2013
Secured loans:	1,028,154	713,919
Secured by cash collateral	23,864	7,791
Secured by mortgages	42,875	24,909
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	961,415	681,219
Unsecured loans:	19,527	13,218
Total Non-Cash Loans	1,047,681	727,137

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(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

5 Financial Risk Management (continued)

(b) Credit Risk (continued)

Collateral policy (continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below (*):

	31 December 2014	31 December 2013
Car	260,352	199,083
Cash and bank deposits	1,850	11,576
Mortgage	2,899,956	2,522,106
Other	3,097,658	1,832,962
Total	6,259,816	4,565,727

(*) The fair value of the collateral is not capped with the respective outstanding loan balance.

Sectoral concentration of loans and advances to customers

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of performing loans and advances to customers is shown below:

	31 December 2014	31 December 2013
Retail	341,849	411,366
Manufacturing	1,734,694	1,553,769
Service	2,323,607	1,944,088
Construction	938,151	774,767
Agriculture and stockbreeding	153,490	80,057
Other	614,731	376,451
Total performing loans and advances to customers	6,106,522	5,140,498

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	31 December 2014	31 December 2013
Balances with the Central Bank (including reserve deposits)(*)	974,888	742,631
Deposits with and loans due from banks and other financial institutions	286,068	261,159
Financial assets at fair value through profit and loss	32,640	75,493
Financial assets available for sale	381,909	265,644
Loans and receivables	6,167,735	5,153,466
Total	7,843,240	6,498,393
Contingent liabilities	1,047,681	727,137
Commitments	240,643	286,854
Total	1,288,324	1,013,991
Total credit risk exposure	9,131,564	7,512,384

(*)Balances with the Central Bank (including reserve deposits) excludes cash in TL /foreign currency amount.

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Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

5 Financial Risk Management (continued)

(b) Credit Risk (continued)

Credit quality of loans and receivables as of 31 December 2014 and 2013 are as follows;

	Neither past due nor impaired	Past due but not impaired	Individually impaired (gross)	Total
31 December 2014				
Loans and receivables				
Commercial	5,647,259	117,683	111,444	5,876,386
Consumer	292,455	43,132	17,008	352,595
Credit Cards	5,993	--	273	6,266
Total	5,945,707	160,815	128,725	6,235,247

	Neither past due nor impaired	Past due but not impaired	Individually impaired (gross)	Total
31 December 2013				
Loans and receivables				
Commercial	4,688,377	46,739	53,569	4,788,685
Consumer	373,854	31,047	6,748	411,649
Credit Cards	481	--	98	579
Total	5,062,712	77,786	60,415	5,200,913

Carrying amount per class of loans and receivables assets whose terms have been renegotiated:

	31 December 2014	31 December 2013
Loans and receivables		
Commercial	46,541	39,651
Consumer	1,395	815
Total	47,936	40,466

Aging analysis of past due but not impaired loans per class of financial instruments:

31 December 2014	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	32,254	42,453	42,976	117,683
Consumer	6,684	23,949	12,499	43,132
Total	38,938	66,402	55,475	160,815

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5 Financial Risk Management (continued)

(b) Credit Risk (continued)

31 December 2013	Less than 31 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	26,767	5,417	14,555	46,739
Consumer	7,632	15,674	7,740	31,047
Total	34,399	21,091	22,295	77,786

(c) Liquidity Risk

Liquidity risk reflects the potential inability both to finance assets over appropriate times to maturity and at suitable rates and to liquidate portfolio positions at the proper time and at reasonable prices.

The Group maintains liquidity facilities with the Central Bank of Turkey and other banks that are available immediately when needed. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy.

The table below shows the undiscounted cash flows on the Group's non-derivative financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow / (outflow) disclosed in the above table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability.

31 December 2014	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<i>Non-derivative liabilities</i>								
Deposits from banks	484,825	484,940	2,845	482,095	-	--	--	--
Deposits from customers	5,082,517	5,123,284	304,231	2,789,229	1,658,513	360,225	11,086	--
Borrowings from banks	846,349	855,628	--	71,837	86,929	495,585	201,277	--
Securities issued	472,935	488,338	--	46,887	166,424	275,027	--	--
Subordinated loans	291,574	473,435	--	--	2,753	18,887	86,664	365,131
Total	7,178,200	7,425,625	307,076	3,390,048	1,914,619	1,149,724	299,027	365,131

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5 Financial Risk Management (continued)

(c) Liquidity Risk (continued)

31 December 2013	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<i>Non-derivative liabilities</i>								
Deposits from banks	445,802	445,890	62,563	377,443	5,884	--	--	--
Deposits from customers	4,323,235	4,357,420	337,213	2,495,018	1,154,141	371,037	11	--
Borrowings from banks	559,081	571,696	--	7,332	36,628	444,499	83,237	--
Securities issued	297,160	314,607	--	50,000	64,210	111,246	89,151	--
Subordinated loans	275,420	467,638	--	--	2,853	17,619	81,805	365,361
Total	5,900,698	6,157,251	399,776	2,929,793	1,263,716	944,401	254,204	365,361

Maturity analysis of balance sheet items is as follows:

As at 31 December 2014	Demand	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated	Total
Assets:							
Cash and balances with the Central bank	200,491	822,618	--	--	--	--	1,023,109
Due from banks	7,670	278,398	--	--	--	--	286,068
Financial assets at fair value through profit and loss	--	3,251	2,908	5,627	20,854	--	32,640
Financial assets available-for-sale	--	5,154	--	19,737	357,018	--	381,909
Loans and advances to customers	--	617,326	733,699	2,845,061	1,910,436	61,213	6,167,735
Other assets	--	--	--	--	--	126,137	126,137
Total assets	208,161	1,726,747	736,607	2,870,425	2,288,308	187,350	8,017,598
Liabilities:							
Deposits from banks	2,845	481,980	--	--	--	--	484,825
Deposits from customers	304,231	2,781,561	1,641,634	345,893	9,198	--	5,082,517
Financial liabilities at fair value through profit and loss	--	2,138	2,372	5,483	1,719	--	11,712
Borrowing from banks	--	74,414	86,948	496,004	188,983	--	846,349
Securities issued	--	46,305	163,385	263,245	--	--	472,935
Subordinated loans	--	--	2,243	1,027	288,304	--	291,574
Other liabilities and equity	--	18,874	2,372	5,486	1,719	799,235	827,686
Total liabilities	307,076	3,405,272	1,898,954	1,117,139	489,922	799,235	8,017,598
Net liquidity surplus/(gap)	(98,915)	(1,678,525)	(1,162,347)	1,753,286	1,798,386	(611,885)	--

As at 31 December 2013							
Total assets	342,546	1,268,859	637,855	2,273,747	2,024,314	87,083	6,634,404
Total liabilities	399,776	2,988,097	1,292,190	958,639	436,257	559,445	6,634,404
Net liquidity surplus/(gap)	(57,230)	(1,719,238)	(654,335)	1,315,108	1,588,057	(472,362)	--

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5 Financial Risk Management (continued)

(d) Market Risk

In order to provide hedge against the market risk within the context of the risk management objectives, the Group set its activities related with market risk management in accordance with “Regulations on Banks’ Internal Control and Risk Management Systems” and “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in the Official Gazette no. 28337 dated 28 June 2012.

Being exposed to market risk, Bank’s Board of Directors has defined risk management strategies and policies about risk managements in line with application and recommendation of group and have led to follow-up strategies periodically. The limits of risks are identified and these limits are revised periodically. Board of Directors ensures that risk management group and executive managers should identify, measure, control and manage the Group’s risk.

Market risk arising from trading transactions is limited through the risk appetite policy approved by Board of Directors as “low” and measured by taking into consideration BRSA’s standard methodology. Additionally Financial Control Department reports the market value of daily purchases and sales and realized profit. The risk management and asset liability committee continuously monitor compliance of trading transactions with the risk appetite policy. Measurements can be done with online connection of the treasury front office in real time. Market risk occurred between mismatches of asset-liability maturity is also monitored through GAP report.

Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Risk measurement methods such as cash flow projection, GAP analysis are also applied.

Capital to be kept for general market risk and specific risk are calculated by using a standard method in accordance with “Measurement and Assessment of Bank Capital Adequacy Regulation” and reported monthly.

In the calculation of the value at credit risk for the derivative financial instruments, the receivables from counterparties are multiplied by the rates stated in the Article 21 and Appendix-2 of “the Regulation on Measurement and Assessment of Capital Adequacy of Banks”, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category and weighted for a second time. The risk amount related to the Group’s derivative financial instruments are calculated using the “Fair Value Method”.

(i) Interest Rate Risk

“Interest rate risk” is the probability of loss due to changes in interest rates depending on the Group’s position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities.

Within the scope of Asset and Liability Management Policy, Group’s assets and liabilities are re-priced according to the remaining maturities and determined interest rate shocks’ effect on the net economic value is calculated.

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5 Financial Risk Management (continued)

(d) Market Risk (continued)

(i) Interest Rate Risk

With the interest rate risk reports and stress tests on the interest rate risk of the Group, willing to relocate risk levels are tested due to the sensitivity of the risk levels in the presence of crisis scenarios and keeping them under control is provided.

Interest rate gap analysis

The following tables indicate the periods in which financial assets and liabilities are repriced as at 31 December 2014 and 31 December 2013;

2014:	Less than three months	Between three and twelve months	Over one year	Non- interest bearing	Total
Financial assets					
Cash and balances with the Central Bank	56,509	--	--	966,600	1,023,109
Due from banks	278,721	--	--	7,347	286,068
Financial assets at FVTPL	21,489	5,799	5,352	--	32,640
Financial assets available for sale	5,154	19,737	357,018	--	381,909
Loans and advances to customers (*)	2,915,202	1,082,212	2,109,108	--	6,106,522
Financial liabilities					
Derivatives held for trading	4,510	5,483	1,719	--	11,712
Deposits from banks	481,980	--	--	2,845	484,825
Deposits from customers	4,423,195	345,893	9,198	304,231	5,082,517
Borrowings from banks	420,707	425,642	--	--	846,349
Securities issued	209,689	263,245	--	--	472,935
Subordinated loans	174,897	--	116,677	--	291,574

(*) The loan balance excludes non-performing loans (net)

2013:	Less than three months	Between three and twelve months	Over one year	Non- interest bearing	Total
Financial assets					
Cash and balances with the Central Bank	--	--	--	804,527	804,527
Due from banks	139,958	--	--	121,201	261,159
Financial assets at FVTPL	41,500	30,734	3,259	--	75,493
Financial assets available for sale	--	--	265,644	--	265,644
Loans and advances to customers (*)	1,955,007	990,336	2,195,155	--	5,140,498
Financial liabilities					
Derivatives held for trading	49,038	31,680	--	--	80,718
Deposits from banks	383,239	--	--	62,563	445,802
Deposits from customers	3,628,607	357,405	10	337,213	4,323,235
Borrowings from banks	307,327	249,562	2,192	--	559,081
Securities issued	297,160	--	--	--	297,160
Subordinated loans	82,403	85,628	107,389	--	275,420

(*) The loan balance excludes non-performing loans (net)

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5 Financial Risk Management (continued)

(d) Market Risk (continued)

(i) Interest Rate Risk

The following table indicates the interest rates by major currencies for the major balance sheet components as at 31 December 2014 and 31 December 2013:

	EUR	USD	Other	TL
	%	%	Currencies	%
31 December 2014				
Cash and balances with the Central Bank	--	--	--	1.48
Financial assets at FVTPL	4.28	5.07	--	14.53
Financial assets available for sale	3.39	4.17	--	5.59
Due from banks	--	0.51	--	11.11
Loans and advances to customers	6.51	5.80	5.88	14.17
Deposits from banks	0.60	0.63	--	7.50
Borrowing from banks	2.02	1.65	--	7.23
Repurchase agreements	0.53	0.69	--	8.25
Deposits from customers	2.41	2.67	4.10	10.46
Securities issued	--	--	--	9.86
Subordinated loans	6.81	7.55	--	--
31 December 2013				
Cash and balances with the Central Bank	--	--	--	--
Financial assets at FVTPL	4.41	4.64	--	12.88
Financial assets available for sale	--	4.17	--	5.59
Due from banks	1.05	0.68	2.00	7.20
Loans and advances to customers	6.77	6.12	5.90	13.46
Deposits from banks	1.05	1.12	2.00	5.16
Borrowing from banks	1.78	1.90	--	5.96
Repurchase agreements	--	1.28	--	4.50
Deposits from customers	2.88	3.16	0.89	9.44
Securities issued	--	--	--	9.61
Subordinated loans	6.85	7.56	--	--

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5 Financial Risk Management (continued)

(d) Market Risk (continued)

The Bank analyses and reports to the Bank's senior management the interest rate sensitivity of equity on a monthly basis by applying positive and negative shocks to the interest sensitive on balance sheet and off-balance sheet positions which are distributed into groups based on their cashflows.

	2014			2013
	Shock Applied (+ / - x bps)	Gains/ Losses	Gains / Equity - Losses / Equity	Gains / Equity - Losses / Equity
TRY	500	(71,015)	-7,83%	-9,58%
TRY	-400	64,035	7,06%	8,78%
USD Dollar	200	(22,099)	-2,44%	-4,05%
USD Dollar	-200	9,627	1,06%	2,54%
EURO	200	(31,667)	-3,49%	-5,64%
EURO	-200	(562)	-0,06%	1,88%
Total (For Positive Shocks)		(124,781)	-13,76%	-19,27%
Total (For Negative Shocks)		73,100	8,06%	13,21%

(ii) Currency Risk

The Group is exposed to currency risk through transactions in foreign currencies. The main measurement currencies of its foreign exchange operations are Euro and USD. As the currency in which the Group presents its financial statements is the Turkish Lira (TL), the financial statements are affected by movements in the exchange rates between these currencies and TL. Currency risk is managed through VaR limits.

At 31 December 2014 and 31 December 2013, the Group's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	2014					Total in 2013
	EUR	USD	CHF	Other	Total	
<i>Foreign currency denominated assets:</i>						
Cash and balances with Central Bank	10,012	859,708	577	76,949	947,246	698,167
Due from banks	1,806	58,405	156	213	60,580	182,497
Financial assets at FVTPL	1,058	2,719	--	--	3,777	3,550
Financial assets available for sale	43,427	320,412	--	--	363,839	248,347
Loans and advances to customers	995,78	1,365,985	74,461	--	2,436,224	2,362,279
Other assets	849	15,422	--	--	16,271	1,035
	1,052,930	2,622,651	75,194	77,162	3,827,937	3,495,875
<i>Foreign currency denominated liabilities:</i>						
Deposits from banks	115,239	339,150	--	9,906	464,295	414,564
Borrowings from banks	475,488	348,647	--	--	824,135	539,693
Deposits from customers	546,165	1,728,551	1,140	52,083	2,327,939	1,579,966
Subordinated loans	57,998	233,576	--	--	291,574	275,420
Other liabilities	5,210	6,832	--	0	12,042	4,530
	1,200,100	2,656,756	1,140	61,989	3,919,985	2,814,173
Net on-balance sheet position	(147,170)	(34,105)	74,054	15,173	(92,048)	681,702
Net off-balance sheet position	143,138	37,104	(73,655)	(15,090)	91,497	(674,716)
Net position	(4,032)	2,999	399	83	(551)	6,986

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5 Financial Risk Management (continued)

A 10 percent strengthening of the foreign currencies against TL would have decreased profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10 percent weakening of the foreign currencies against TL would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	31 December 2014		31 December 2013	
	Profit or Loss	Equity	Profit or Loss	Equity
USD	1,125	(825)	2,736	(2,334)
EUR	(403)	--	328	--
CHF	40	--	(88)	--
Other currencies	8	--	56	--
Total, net	770	(825)	3,032	(2,334)

(e) Operational Risk

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

The Group practices policies in accordance with local regulations and in the context of best international practices for operational risk identification, measurement, mitigation, reporting and control of international best practices in the context of implementing.

Under the umbrella of operational risk, business continuity policies and procedures have been created. Business impact analysis has been made to ensure process based business continuity, critical activities of the institution and necessary resources to carry out these activities have been identified. Creation of infrastructure for the implementation of the plans is in progress through business continuity plans.

(f) Capital Adequacy

The BRSA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets (12% for banks operating in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealized gains on securities classified as available-for-sale.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of

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(f) Capital Adequacy (continued)

risk attached to assets and off-balance sheet exposures. The Group and its individually regulated operations have complied with externally imposed capital requirements throughout the period and its capital adequacy ratio calculated in accordance with local regulations is above the minimum required ratio which is 8%.

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the “Regulation”)”, “Regulation on Credit Risk Mitigation Techniques” and “Regulation on Calculation of Risk Weighted Amounts for Securitization’s” published in the Official Gazette no.28337 dated 28 June 2012 and the “Regulation on Equities of Banks” published in the Official Gazette no.26333 dated 1 November 2006. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as “trading book” and “banking book” according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortization or impairment, are taken into account on a net basis after being reduced by the related amortizations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables”. The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the “counterparty credit risk” is calculated for repurchase transactions, securities and commodities borrowing agreements.

Summary information related to the consolidated capital adequacy ratio

	BANK		CONSOLIDATED	
	Current Period	Prior Period	Current Period	Prior Period
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	520,013	437,126	520,034	437,128
Capital Requirement for Market Risk (CRMV)	2,144	8,245	2,144	8,245
Capital Requirement for Operational Risk (CROV)	25,668	14,660	25,673	14,660
Equity	906,455	763,188	906,281	763,139
Equity/((CRCR+MRV+ORV) * 12.5 * 100)	%13.24	%13.27	%13.23	%13.27

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6 Fair Value of Financial Instruments

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

	Financial instruments at fair value	Loans and receivables	Financial instruments at amortized cost	Total carrying amount	Fair value
31 December 2014					
Cash and balances with the Central Bank	--	1,023,109	--	1,023,109	1,023,109
Due from banks	--	286,068	--	286,068	286,068
Financial assets at FVTPL	32,640	--	--	32,640	32,640
Financial assets available for sale	381,909	--	--	381,909	381,909
Loans and advances to customers:	--	--	--	--	--
Measured at fair value	--	--	--	--	--
Measured at amortized cost	--	6,167,735	--	6,167,735	6,251,279
	414,549	7,476,912	--	7,891,461	7,975,005
Derivatives held for trading	11,712	--	--	11,712	11,712
Deposits from banks	--	--	484,825	484,825	484,825
Borrowings from financial institutions	--	--	846,349	846,349	846,349
Deposits from customers	--	--	5,082,517	5,082,517	5,082,517
Securities issued	--	--	472,935	472,935	472,935
Subordinated loans	--	--	291,574	291,574	291,574
	11,712	--	7,178,200	7,189,912	7,189,912
31 December 2013					
Cash and balances with the Central Bank	--	804,527	--	804,527	804,527
Due from banks	--	261,159	--	261,159	261,159
Financial assets at FVTPL	75,493	--	--	75,493	75,493
Financial assets available for sale	265,644	--	--	265,644	265,644
Loans and advances to customers:	--	--	--	--	--
Measured at fair value	--	--	--	--	--
Measured at amortized cost	--	5,153,466	--	5,153,466	5,204,479
	341,137	6,219,152	--	6,560,289	6,611,302
Derivatives held for trading	80,718	--	--	80,718	80,718
Deposits from banks	--	--	445,802	445,802	445,802
Borrowings from financial institutions	--	--	559,081	559,081	559,081
Deposits from customers	--	--	4,323,235	4,323,235	4,323,235
Securities issued	--	--	297,160	297,160	297,160
Subordinated loans	--	--	275,420	275,420	275,420
	80,718	--	5,900,698	5,981,416	5,981,416

Fair values of the financial assets and liabilities carried at amortized cost, except for loans and advances to customers, are considered to approximate their respective carrying values due to their short-term nature.

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6 Fair Value of Financial Instruments (continued)

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

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives.

	31 December 2014			31 December 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets						
Financial assets at fair value through profit and loss	19,849	12,791	--	16,986	58,507	--
Financial assets available for sale	381,909	--	--	265,644	--	--
Financial Liabilities						
Derivatives held for trading	--	11,712	--	--	80,718	--

There is no transition between Level 1 and Level 2 in the current year.

7 Cash and Balances with Central Bank

At 31 December 2014 and 31 December 2013, cash and balances with the Central Bank are as follows:

	31 December 2014	31 December 2013
Cash on hand	48,221	61,896
Reserve deposits at the Central Bank-free	152,270	159,145
Reserve deposits at the Central Bank-restricted	822,618	583,486
Cash and balances with the Central Bank	1,023,109	804,527
Due from other banks	286,068	261,159
Less: Reserve deposits-restricted	(822,618)	(583,486)
Less: Blocked deposits	(4,809)	(60,387)
Less: Obligations under repurchase commitments	(325,977)	(225,988)
Less: Interest income/expense accruals (net)	--	--
Cash and cash equivalents in the statements of cash flows	155,773	195,825

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7 Cash and Balances with Central Bank (continued)

Reserve deposits at the Central Bank represent the minimum cash reserve maintained with the Central Bank of Turkey (the Central Bank), as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. At 31 December 2014, reserve deposit ratios for Turkish Lira and foreign currency deposits are 5%-11.5% and 6%-18% (31 December 2013: 5%- 11.5% and 6%-13%). Restricted reserve deposits are not available for the daily business of the Group. As at 31 December 2014, interest rate for TL reserve deposits are 1.48% (31 December 2013: 0%).

8 Due from Banks

At 31 December 2014 and 31 December 2013, due from banks are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Turkish Lira	103	342
Foreign Currency	7,245	120,860
Demand	<u>7,348</u>	<u>121,202</u>
Turkish Lira	225,385	78,319
Foreign Currency	30,146	14,941
Time	<u>255,531</u>	<u>93,260</u>
Turkish Lira	--	--
Foreign Currency	23,189	46,697
Money market placements	<u>23,189</u>	<u>46,697</u>
Total due from banks	<u><u>286,068</u></u>	<u><u>261,159</u></u>

As at 31 December 2014, foreign currency placement has 2 days maturity and 0.51% interest rate (31 December 2013: 2 days maturity and 0.42% interest rate). As at 31 December 2014, Turkish Lira placement has 2 days maturity and 11.11% interest rate (31 December 2013: 2 days maturity and 7.72% interest rate). The Group has TL 4,809 blocked deposit accounts for the derivative contracts with the banks abroad (31 December 2013: TL 60,387).

9 Financial Assets and Liabilities

a) Financial Assets

Financial Assets at FVTPL

At 31 December 2014 and 31 December 2013, financial asset at FVTPL are as follows:

	<u>31 December 2014</u>			<u>31 December 2013</u>		
	<u>Pledged</u>	<u>Non-pledged</u>	<u>Total</u>	<u>Pledged</u>	<u>Non-pledged</u>	<u>Total</u>
Debt instruments	11,502	8,347	19,849	11,545	5,437	16,986
Government bonds	11,502	4,569	16,071	11,545	1,889	13,438
Eurobonds	--	3,500	3,500	--	3,405	3,405
Corporate and bank bonds	--	278	278	--	143	143
Derivatives held for trading purpose	--	12,791	12,791	--	58,507	58,507
-Forwards	--	780	780	--	12,538	12,538
-Currency swaps	--	5,476	5,476	--	11,253	11,253
- Options	--	6,535	6,535	--	34,716	34,716
Total financial assets at FVTPL	<u>11,502</u>	<u>21,138</u>	<u>32,640</u>	<u>11,545</u>	<u>63,948</u>	<u>75,493</u>

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9 Financial Assets and Liabilities (continued)

a) Financial Assets (continued)

Financial Assets at FVTPL (continued)

As of 31 December 2014, government securities with carrying values of TL 4,244 (31 December 2013: TL 5,687) are pledged to the Central Bank and the İstanbul Takas ve Saklama Bankası Anonim Şirketi (Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for stock exchange and money market operations. TL 7,258 of the pledged trading assets presented in the table above are those financial assets subject to repo transactions. (31 December 2013: TL 5,858).

TL 15,754 (31 December 2013: TL 13,093) of debt securities have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Average interest rates for TL, EUR and USD denominated financial assets at FVTPL are 14.53%, 4.28% and 5.07% respectively (31 December 2013: 12.88%, 4.41% and 4.64% respectively).

Financial Assets Available For Sale

	31 December 2014	31 December 2013
Debt instruments		
Corporate and bank bonds	363,839	241,646
Government bonds	18,070	22,998
Total financial assets available for sale	381,909	265,644

As of 31 December 2014 and 2013 available for sale debt securities have fixed interest rates.

Average interest rates for TL, USD and EUR denominated financial assets available for sale are 5.59% and 4.17%, 3.39% respectively (31 December 2013: 5.59% for TL and 4.17% for USD)

b) Financial Liabilities at FVTPL

At 31 December 2014 and 31 December 2013, derivative liabilities held for trading are as follows:

	31 December 2014	31 December 2013
Derivatives held for trading		
- Forwards	2,955	12,622
- Foreign currency swaps	2,027	33,406
- Options	6,730	34,690
Total financial liabilities at FVTPL	11,712	80,718

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10 Loans and Advances to Customers

At 31 December 2014 and 31 December 2013, loans and advances to customers are as follows:

	31 December 2014	31 December 2013
Consumer loans and individual credit cards		
<i>Consumer loans-TL</i>		
Housing loans	40,898	38,451
Vehicle loans	5,320	7,753
General purpose loans	187,679	225,440
Others	--	--
<i>Consumer loans FC and FC Indexed</i>		
Housing loans	93,360	127,711
Vehicle loans	--	--
General purpose loans	3,361	5,094
<i>Individual credit cards-TL</i>		
With installment	252	28
Without installment	3,008	444
<i>Individual credit cards-FC</i>		
With installment	--	--
Without installment	14	7
<i>Personnel loans</i>	1,392	1,799
<i>Overdraft account-TL</i>	6,565	4,639
	341,849	411,366
Commercial loans and corporate credit cards		
<i>Commercial loans with installments-TL</i>		
Housing loans	321	2,569
Vehicle loans	29,871	24,464
General purpose loans	1,192,496	773,392
<i>Commercial loans with installments-FC Indexed</i>		
Housing loans	2,550	3,920
Vehicle loans	14,498	21,302
General purpose loans	125,946	166,248
<i>Corporate credit cards-TL</i>		
With installment	202	--
Without installment	2,517	2
<i>Overdraft accounts-TL</i>	76,317	48,563
<i>Spot loans</i>	835,159	602,965
<i>Revolving loans</i>	1,614,713	1,038,338
<i>Investment loans</i>	29,635	88,512
<i>Export loans</i>	256,126	183,600
<i>Other loans</i>	1,594,766	1,791,620
	5,775,116	4,745,495
<i>Total performing loans</i>	6,116,965	5,156,861
Non-performing loans	128,725	60,415
Unearned commission income	(10,443)	(16,363)
Total gross loans	6,235,247	5,200,913
Allowance for loan losses	(67,512)	(47,447)
Loans and advances to customers	6,167,735	5,153,466

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10 Loans and Advances to Customers (continued)

Movement in the allowance for specific and collective loan losses for the years 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance at 1 January	47,447	18,315
Write-off /Sale (*)	(31,187)	(3,747)
Charge for the year	51,252	32,879
Balance at 31 December	<u>67,512</u>	<u>47,447</u>

(*) Non-performing loans amounting TL 12,633 in March 2014 and TL 18,544 in December 2014 has been sold. In year 2013, non-performing loans amount sold was TL 3,741.

The sources of the allowance for the year on loans and advances to customers are as follows:

	<u>1 January- 31 December 2014</u>	<u>1 January- 31 December 2013</u>
Specific allowance/(reversal)	31,161	25,459
Collective allowance/(reversal)	20,091	7,420
Total	<u>51,252</u>	<u>32,879</u>

11 Other Assets

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

	<u>31 December 2014</u>	<u>31 December 2013</u>
Check clearance balance	41,394	--
Advances given (*)	15,523	292
Prepaid commissions	8,692	4,723
Non-current assets held for sale (**)	3,897	4,548
Other prepaid expenses	3,877	3,355
Prepaid rent	2,423	1,419
Investment funds receivables	2,273	3,332
Cash guarantees given	462	482
Cheque books	--	42
Other	6,331	443
	<u>84,872</u>	<u>18,636</u>

(*) The Parent Bank has signed an agreement, with a total purchase price of USD 65,250,000 on 30 October 2014 relating to the purchase of a real estate, which is to be utilized as the head office premises. The 10% of the purchase price of property subject to contract has been paid in advance as USD 6,525,000. The remaining amount will be paid at the latest on 25 March upon the transfer of the title of the property to the Parent Bank.

(**) Certain non-current assets primarily related to the collaterals 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.

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11 Other Assets (continued)

Movement of non-current assets held for sale is as follows:

	<u>2014</u>	<u>2013</u>
Opening balance, 1 January	4,548	6,393
Additions	1,389	1,505
Disposal	(2,040)	(3,350)
Balance at 31 December	<u>3,897</u>	<u>4,548</u>

12 Property and Equipment

Movement in property and equipment during the year ended 31 December 2014 is as follows:

	<u>Furniture, fixture and equipment</u>
Balance at 1 January 2014:	
Cost	58,848
Accumulated depreciation	(25,197)
Opening net book amount	33,651
Additions	8,003
Disposals (net)	(6)
Depreciation charge	(9,226)
Balance at 31 December 2014:	<u>32,422</u>

Movement in property and equipment during the year ended 31 December 2013 is as follows:

	<u>Furniture, fixture and equipment</u>
Balance at 1 January 2013:	
Cost	35,907
Accumulated depreciation	(19,398)
Opening net book amount	16,509
Additions	22,941
Disposals (net)	(5)
Depreciation charge	(5,794)
Balance at 31 December 2013:	<u>33,651</u>

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13 Intangible Assets

Movement in intangible assets during the year ended 31 December 2014 is as follows:

	<u>Software</u>	<u>Other</u>	<u>Carrying Value</u>
Balance at 1 January 2014:			
Cost	36,220	5,953	42,173
Accumulated amortization	(29,351)	(5,836)	(35,187)
Opening net book amount	6,869	117	6,986
Additions	2,775	3	2,778
Disposals	--	--	--
Amortization charge	(4,380)	(47)	(4,427)
Balance at 31 December 2014:	5,264	73	5,337

Movement in intangible assets during the year ended 31 December 2013 is as follows:

	<u>Software</u>	<u>Other</u>	<u>Carrying Value</u>
Balance at 1 January 2013:			
Cost	31,564	5,953	37,517
Accumulated amortization	(25,520)	(5,785)	(31,305)
Opening net book amount	6,044	168	6,212
Additions	4,656	--	4,656
Disposals	--	--	--
Amortization charge	(3,831)	(51)	(3,882)
Balance at 31 December 2013:	6,869	117	6,986

14 Deposits from Banks

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

	<u>31 December 2014</u>	<u>31 December 2013</u>
Time deposits in FC	155,298	151,250
Time deposits in TL	704	6,001
Obligations under repurchase commitments from banks in FC	306,657	207,411
Obligations under repurchase commitments from banks in TL	19,320	18,577
Demand deposits in TL	2,339	6,664
Demand deposits in FC	507	55,899
	484,825	445,802

At 31 December 2014, foreign currency denominated term deposits mature in 11 days (31 December 2013: 9 days). Interest rates on term deposits are 0.68% (31 December 2013: 0.92%). At 31 December 2014, Turkish Lira denominated term deposits mature in 2 days (31 December 2013: 2 days). Interest rates on TL term deposits are 7.50 % (31 December 2013: 7.20%).

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14 Deposits from Banks (continued)

At 31 December 2014, obligations provided under repurchase agreements in FC mature in 10 days (31 December 2013: 5 days) with interest rates 0.67 % (31 December 2013: 1.28 %). At 31 December 2014, obligations provided under repurchase agreements in TL mature in 6 days (31 December 2013: 3 days) with interest rates 8.25 % (31 December 2012: 4.50 %).

15 Deposits from Customers

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

	31 December 2014			31 December 2013		
	Demand	Time	Total	Demand	Time	Total
	161,245	3,955,856	4,117,101	201,702	3,119,895	3,321,597
FC Deposits	131,150	2,194,960	2,326,110	182,740	1,394,669	1,577,409
Saving Deposits	30,095	1,760,896	1,790,991	18,962	1,725,226	1,744,188
Commercial deposits	140,051	773,036	913,087	132,365	690,404	822,769
Public sector and other inst. deposit	1,102	49,394	50,496	586	175,723	176,309
Precious metals	1,833	--	1,833	2,560	--	2,560
Total deposits from customers	304,231	4,778,286	5,082,517	337,213	3,986,022	4,323,235

At 31 December 2014, interest rates on term deposits in TL range between 1.1% and 13.0% (31 December 2013: 1.6% and 10.4%), interest rates on term deposits in EUR range between 0.1% and 3.05% (31 December 2013: between 0.1% and 5.25%), interest rates on term deposits in USD range between 0.1% and 4.0% (31 December 2013: between 0.1% and 4.25%), interest rates on term deposits in CHF range between 0.75% and 1.50% (31 December 2013: between 0.1% and 2.00 %) and interest rates on term deposits in GBP range between 0.75% and 2.0% (31 December 2013: between 0.25% and 3.4%).

16 Other Liabilities and Provisions

At 31 December 2014 and 31 December 2013, other liabilities comprised of the following items:

	31 December 2014	31 December 2013
Blocked accounts	46,836	46,111
Check clearance account	85,708	25,429
Taxes and duties withheld	16,736	12,825
Miscellaneous payables	13,478	6,498
Unused vacation pay liability and personnel bonus accrual	7,143	5,068
Payables to consultants and suppliers	1,245	605
Blocked cheques	266	744
Other	5,476	3,305
Other liabilities	176,888	100,585
Provision for taxes	3,662	4,237
Employee termination benefits	4,609	2,880
Provision for lawsuits	968	918
Provisions	9,239	8,035
Total	186,127	108,620

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16 Other liabilities and provisions (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Bank is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3,438.22 (full TL) and TL 3,254.44 (full TL) at 31 December 2014 and 2013, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

Movements in the present value of the employee termination benefits in the current year were as follows:

	<u>2014</u>	<u>2013</u>
Opening, 1 January	2,880	410
Current service cost	1,212	1,246
Interest cost	89	21
Benefits paid	(607)	(479)
Actuarial losses on employee termination benefits	1,035	1,682
Closing, 31 December	<u>4,609</u>	<u>2,880</u>

17 Borrowings from Banks

Borrowings from banks as of 31 December 2014 and 2013 comprised the following items:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Borrowing from Banks		
Turkish Lira	22,216	19,389
Foreign Currency	824,133	539,692
	<u>846,349</u>	<u>559,081</u>

Syndicated loan of EUR 69.5 million and U.S. \$ 30.5 million which was due in December 2014 was renewed as EUR 70 million and U.S. \$ 30 million in the same month.

Fibabanka Anonim Şirketi*Notes to the consolidated financial statements as at and for the year ended 31 December 2014**(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)***18 Securities Issued**

TL	31 December 2014	
	Short Term	Medium and Long Term
Nominal	323,460	153,300
Cost	315,810	153,300
Carrying Amount	315,810	157,125

TL	31 December 2013	
	Short Term	Medium and Long Term
Nominal	110,000	185,000
Cost	105,253	185,000
Carrying Amount	108,725	188,435

19 Subordinated Loans

	31 December 2014	
	TL	FC
Domestic Other Institutions	--	116,677
Foreign Banks	--	81,846
Foreign Other Institutions	--	93,051
Total	--	291,574

	31 December 2013	
	TL	FC
Domestic Other Institutions	--	107,389
Foreign Banks	--	82,403
Foreign Other Institutions	--	85,628
Total	--	275,420

The Bank acquired subordinated loan from its parent group, Fiba Holding A.Ş., amounting to USD 50 million with 10 years maturity in year 2012. The Bank also acquired loans from international financial institutions and banks amounting U.S \$ 50 million and € 20 million with 10 years maturity in year 2013.

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

20 Taxation

The Bank and its subsidiary is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporation tax is computed on the statutory income tax base determined in accordance with Tax Procedural Law. Corporate tax rate is 20%.

In Turkey, tax legislation does not permit a parent group and its subsidiaries to file a consolidated tax return. Therefore, the taxation charge as reflected in the accompanying consolidated financial statements, represents the total amount of taxation charge of the Bank and its subsidiary.

Turkish tax legislation provides for a temporary tax to be calculated and paid based on earnings generated for each quarter. The temporary tax rate used in determining the temporary tax is 20%. The temporary taxes paid quarterly are offset against the final tax liability for the year. The final corporation tax, after deducting the quarterly payments, becomes due and is paid in one installment by 30 April.

In Turkey, the Tax Procedural Law does not provide a procedure for final agreement of tax assessments. Tax returns are required to be filed within the fourth month following the balance sheet date. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred.

Provision for corporate taxes for current and previous year is presented below:

	<u>2014</u>	<u>2013</u>
Total tax liability	13,646	16,578
Prepaid taxes	(9,984)	(12,341)
Provision for taxes	<u>3,662</u>	<u>4,237</u>

For the years ended 31 December 2014 and 2013, taxation comprised the following:

	<u>2014</u>	<u>2013</u>
Current tax charge	(13,646)	(16,578)
Deferred tax benefit / (charge)	(7,620)	2,408
Total	<u>(21,266)</u>	<u>(14,170)</u>

The total provision for taxes on income is different than the amount computed by applying the statutory tax rate to loss from operations before provision for taxes on income as shown in the following reconciliation:

	<u>2014</u>	<u>2013</u>
Profit before income tax	103,591	70,249
At statutory income tax rate	(20,718)	(14,050)
Nondeductible expenses	(175)	(261)
Other tax exempt income	62	96
Other temporary differences	(435)	45
Taxation	<u>(21,266)</u>	<u>(14,170)</u>

Fibabanka Anonim Şirketi**Notes to the consolidated financial statements as at and for the year ended 31 December 2014***(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)***20 Taxation (continued)*****Deferred tax assets and liabilities***

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

	31 December 2014	31 December 2013
<i>Deferred tax assets</i>		
Tax losses carried forward	32	23
Unearned loan commissions	2,726	3,815
Allowance for loan losses	1,457	1,942
Provision for vacation pay	623	514
Reserve for employee termination benefits	374	158
Valuation of financial assets	2,091	6,014
Others	681	5,370
<i>Total deferred tax assets</i>	<u>7,986</u>	<u>17,836</u>
<i>Deferred tax liabilities</i>		
Fair value of loans and advances to customers	--	190
Derivatives held for trading purposes	912	--
Others	3,566	2,804
<i>Total deferred tax liabilities</i>	<u>4,478</u>	<u>2,994</u>
Net deferred tax assets	<u>3,506</u>	<u>14,842</u>

The movement of deferred tax asset is as follows:

	2014	2013
Balance at the beginning of the period	<u>14,842</u>	<u>6,002</u>
Deferred tax recognised in income statement	(7,620)	2,408
Deferred tax recognised under equity	(3,716)	6,432
Balance at the end of the period	<u>3,506</u>	<u>14,842</u>

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

21 Share Capital and Capital Advance

The Bank's paid in capital which was TL 426,650 was decided to be increased to TL 550,000 on Board of Directors minutes held on 25 February 2013; increase of TL 17,416 is to be provided by inflation adjustment to share capital, TL 9,502 is to be provided by profit on disposal of immovable, and TL 96,432 is to be paid by Fiba Holding A.Ş. in cash; legal applications have been made for the total increase of TL 123,350 of paid in capital. As of 29 May 2013, legal procedures have been finalized and capital increase recorded in financial statements.

22 Retained Earnings / (Accumulated Losses) and Other Reserves

At 31 December 2014 retained earnings are TL 99,520 (31 December 2013: TL 17,193).

23 Unrealized Losses on Available-For-Sale Investments, Net of Tax

At 31 December 2014, unrealized losses on available-for-sale investments are TL 10,454 (31 December 2013: TL 30,071). The tax effect of unrealized gain on available-for-sale investments is TL 2,091 (31 December 2013: TL 6,014), and the net unrealized loss amount is TL 8,363 (31 December 2013: TL 24,057).

24 Commitments and Contingent Liabilities

24.1 Letters of guarantee and credit

As at 31 December 2014, the Bank is contingently liable for letters of guarantee and credit given amounting to TL 1,047,681 (31 December 2013: TL 727,137).

24.2 Other commitments

	31 December 2014	31 December 2013
Tax and fund liabilities from export commitments	2,357	2,484
Commitments for credit card expenditure limits	20,444	9,180
Payment commitments for cheques	121,680	86,442
Irrevocable credit facilities	93,359	187,392
Other irrevocable commitments	2,803	1,356
Total	240,643	286,854

Fibabanka Anonim Şirketi**Notes to the consolidated financial statements as at and for the year ended 31 December 2014***(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)***24 Commitments and Contingent Liabilities (continued)***24.3 Derivative contracts*

Commitments for purchase of foreign currencies under option, forward and swap contracts at 31 December 2014 and 31 December 2013 are as follows:

	31 December 2014	31 December 2013
	Purchase	Purchase
Spot buy-sell commitments	245,872	289,263
Swap agreements for trading purposes	692,709	1,481,666
Forward agreements for trading purposes	95,732	681,906
Options	563,703	1,587,769
	<u>1,598,016</u>	<u>4,040,604</u>

Maturity analysis of derivative instruments is as follows:

<u>31 December 2014</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Over 1 year</u>	<u>Total</u>
Spot, forward and swap exchange contracts	819,968	115,929	31,172	27,671	39,573	1,034,313
Options	234,740	91,125	44,222	128,747	64,869	563,703
Total	<u>1,054,708</u>	<u>207,054</u>	<u>75,394</u>	<u>156,418</u>	<u>104,442</u>	<u>1,598,016</u>

<u>31 December 2013</u>	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Over 1 year</u>	<u>Total</u>
Spot, forward and swap exchange contracts	1,580,644	679,697	151,915	40,579	--	2,452,835
Options	241,282	235,190	272,375	838,922	--	1,587,769
Total	<u>1,821,926</u>	<u>914,887</u>	<u>424,290</u>	<u>879,501</u>	<u>--</u>	<u>4,040,604</u>

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

25 Related Parties

For the purpose of this report, the Bank's ultimate parent group, Fiba Holding A.Ş. and all its subsidiaries, and the ultimate owners, directors and executive officers of Fibabanka A.Ş. are referred to as related parties. During the course of the business, the Group has made placements with and also received deposits from them at various terms.

(a) Transactions with direct related parties

	<u>2014</u>	<u>2013</u>
Interest income	--	5
Interest expense	9,981	9,724
Non - cash loan commission income	--	--

(b) Balances with direct related parties

	<u>31 December 2014</u>	<u>31 December 2013</u>
Non cash loans to related parties	20	87
Deposits from related parties	31,138	16,769
Subordinated loans	116,677	107,389

(c) Transactions with other related parties

	<u>2014</u>	<u>2013</u>
Interest income	3,469	4,522
Interest expense	11,292	5,941
Net trading income	(464)	(356)
Non - cash loan commission income	92	53

(d) Balances with other related parties

	<u>31 December 2014</u>	<u>31 December 2013</u>
Cash loans to other related parties	770	2,475
Non - cash loans to other related parties	15,000	18,736
Deposits from other related parties	161,258	79,203
Fund borrowings from other related parties	30,858	101,655

Fibabanka Anonim Şirketi**Notes to the consolidated financial statements as at and for the year ended 31 December 2014**

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

25 Related Parties (continued)

(e) Derivative transactions with other related parties

	31 December 2014	31 December 2013
	Purchase(*)	Purchase(*)
Spot, swap and forward agreements for trading purposes	76,728	51,656

(*) Stated in notional amounts

(f) Remuneration and benefits of key management

The key management and the members of the Board of Directors received remuneration and fees totaling TL 5,355 for the year ended 31 December 2014 (31 December 2013: TL 5,084).

26 Net Interest Income

	2014	2013
Interest income		
Loans and advances to customers	682,000	441,046
Due from banks	11,454	8,089
Derivative assets	17,077	31,882
Debt instruments	14,645	10,903
Others	277	28
	725,453	491,948
Interest expense		
Deposits from banks and customers	311,893	219,776
Saving deposits insurance	4,289	3,288
Fund borrowed	34,797	22,569
Derivative liabilities	3,556	77
Obligations under repurchase agreements	3,421	3,067
Securities issued	45,229	21,371
Other	1,512	2,814
	404,697	272,962
Net interest income	320,756	218,986

Fibabanka Anonim Şirketi

Notes to the consolidated financial statements as at and for the year ended 31 December 2014

(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)

27 Fees and Commission Income and Expenses

Fees and commission income for the year ended 31December 2014 and 31 December 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Transfer commissions	2,045	1,233
Insurance commissions	4,579	2,852
Account maintenance fees	2,681	1,714
Asset management fees (*)	1,016	1,533
Commissions from non-cash loans	9,251	6,386
Limit allocation,revision and appraisal fees	3,838	3,819
Others	5,628	1,906
Fees and commission income	<u>29,037</u>	<u>19,443</u>

(*)Asset management fees relate to fees earned by the Bank on investment funds.

Fees and commission expenses for the year ended 31 December 2014 and 31 December 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Payment and transaction fees	922	697
Credit card fees	2,025	308
Commissions for borrowings	3,933	3,136
Commissions for debt issued	1,491	672
Commissions to correspondent banks	732	541
Other	1,666	763
Fees and commission expense	<u>10,769</u>	<u>6,117</u>

28 Net Trading Income

	<u>2014</u>	<u>2013</u>
Gains on derivative transactions	7,759	6,851
Foreign exchange gains /(losses)	(7,403)	2,502
Gains / (losses) on debt instruments, net	2,980	(487)
	<u>3,336</u>	<u>8,866</u>

29 Other Operating Income

	<u>2014</u>	<u>2013</u>
Intermediary fees	1,505	1,538
Reversal of litigation provision	9	10
Gain on sale of non-current assets held for sale and tangible assets	247	354
Gain on sale of non-performing loans	600	51
Communication income	165	246
Promissory notes fee	478	450
Incentive refunds from social security institution	--	3,531
Others	5,367	3,000
	<u>8,371</u>	<u>9,180</u>

Fibabanka Anonim Şirketi**Notes to the consolidated financial statements as at and for the year ended 31 December 2014***(Currency: Amounts expressed in Thousands of Turkish Lira (TL) unless otherwise stated)***30 Personnel Expenses**

	2014	2013
Wages and salaries	87,981	65,832
Social security premiums	12,040	8,559
Bonus provision	4,460	2,500
Employee health insurance expenses	2,941	1,990
Termination and vacation pay expenses	1,054	390
Others	10,676	10,683
	119,152	89,954

31 Other Expenses

	2014	2013
Rent expenses	25,494	17,476
Taxes other than on income	8,301	8,115
Telecommunication expenses	5,446	4,102
Information technology expenses	3,411	2,134
Consultancy expenses	3,410	2,817
Cleaning expenses	2,560	1,741
Transportation expenses	2,496	2,334
Advertisement expenses	1,781	514
Electricity expenses	1,639	1,246
Office supplies	959	1,159
Maintenance expenses	865	640
Others	6,722	5,321
	63,083	47,600

32 Subsequent Events

None.