TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

31 December 2015

This report contains the "Independent Auditors' Report" comprising 2 pages and; the "Consolidated Financial statements and their explanatory notes" comprising 62 pages.

Akis Bağımsız Denetim ve
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Turkish Bank Anonim Şirketi

Introduction

We have audited the accompanying consolidated financial statements of Turkish Bank Anonim Şirketi ("the Bank") and its subsidiaries (collectively refer to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated 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.

Auditors' 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 our 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, we consider 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 consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Murat Alsan
Partner

30 April 2016
Istanbul, Turkey

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TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2015

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

	Notes	2015	2014
Assets			
Cash and balances with the Central Bank of Turkey	5	88,996	121,059
Loans and advances to banks	6	67,290	185,675
Money market placements	7	56,857	19,117
Financial assets at fair value through profit or loss	8	3,162	5,329
-Trading investment securities		2,589	3,564
-Derivative financial instruments		573	1,765
Loans and advances to customers	9	811,077	892,679
Available for sale financial assets	10	64,299	73,847
Leasing receivables	11	474	730
Factoring receivables	12	10,198	18,097
Property and equipment	13	8,177	8,758
Intangible assets	14	4,089	4,167
Deferred tax asset		2,825	2,803
Other assets	15	99,993	83,832
TOTAL ASSETS		**1,217,437**	**1,416,093**
Liabilities			
Deposits	16	773,231	905,123
Obligations under repurchase agreements and money market funding	17	35,641	35,475
Funds borrowed	18	138,959	204,904
Derivative financial instruments		1,338	708
Debit securities issued	19	50,778	57,849
Corporate tax liability	20	2,316	3,029
Employee benefits and other provisions	21	3,806	3,212
Other liabilities	22	22,808	18,819
TOTAL LIABILITIES		**1,028,877**	**1,229,119**
EQUITY			
Share capital issued	23	175,000	175,000
Adjustment to share capital		6,868	6,868
Fair value reserve		(893)	(180)
Legal reserve		4,947	4,712
Retained earnings		2,638	574
TOTAL EQUITY		**188,560**	**186,974**
TOTAL LIABILITIES AND EQUITY		**1,217,437**	**1,416,093**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	2015	2014
Interest income		103,551	100,207
Interest expense		(49,543)	(51,935)
Net interest income	24	**54,008**	**48,272**
Fee and commission income		12,043	11,270
Fee and commission expense		(2,444)	(2,065)
Net fee and commission income		**9,599**	**9,205**
Foreign exchange losses, net	25	2,602	(2,212)
Trading gains, net	25	(1,248)	1,148
Gains from investment securities, net	25	26	84
Other operating income	26	4,009	4,723
Operating income, net		**68,996**	**61,220**
Impairment losses on loans and credit related commitments, net		(4,282)	(4,969)
Other operating expenses	27	(59,577)	(52,126)
Profit/(Loss) before income tax		**5,137**	**4,125**
Income tax (expense)/income	20	(1,564)	(504)
Profit/(Loss) for the year		**3,573**	**3,621**
Profit/(Loss) Attributable to:			
Equity holders of the Bank		3,573	3,621
Non-controlling interest		-	-

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	2015	**2014**
Profit for the year	**3,573**	**3,621**
Other comprehensive income		
Items that are or may be reclassified to profit or loss:		
Net change in fair value of available for sale financial assets	(895)	243
Available for sale financial assets transferred to profit or loss	4	31
Related tax	178	(55)
Items that never will be reclassified to profit or loss:		
Actuarial gain/(loss) related to employee benefits	(1,592)	-
Related tax	318	-
Other comprehensive income, net of income tax	**(1,987)**	**219**
Total comprehensive income	**1,586**	**3,840**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Share Capital	Adjustment to share capital	Unrealized gains/(losses) on available for sale financial assets, (net of tax)	Legal reserves	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total equity
Balance at 1 January 2014	165,000	6,868	(399)	4,692	(3,027)	173,134	-	173,134
Profit for the year	-	-	-	-	3,621	3,621	-	3,621
Other comprehensive income	-	-	219	-	-	219	-	219
Total other comprehensive income	**-**	**-**	**219**	**-**	**3,621**	**3,840**	**-**	**3,840**
Contributions by and distributions to owners								
Capital increase	10,000	-	-	-	-	10,000	-	10,000
Transfers to reserves	-	-	-	20	(20)	-	-	-
Balance at 31 December 2014	**175,000**	**6,868**	**(180)**	**4,712**	**574**	**186,974**	**-**	**186,974**
Balance at 1 January 2015	175,000	6,868	(180)	4,712	574	186,974	-	186,974
Profit for the year	-	-	-	-	3,573	3,573	-	3,573
Other comprehensive income	-	-	(713)		(1,274)	(1,987)	-	(1,987)
Total other comprehensive income	**-**	**-**	**(713)**	**-**	**2,299**	**1,586**	**-**	**1,586**
Contributions by and distributions to owners								
Transfers to reserves	-	-	-	235	(235)	-	-	-
Balance at 31 December 2015	**175,000**	**6,868**	**(893)**	**4,947**	**2,638**	**188,560**	**-**	**188,560**

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	2015	2014
Cash flows from operating activities			
Profit for the year		**3,573**	**3,621**
Adjustments for:			
Depreciation and amortization expense	13,14	2,247	1,755
Impairment losses on loans and credit related commitments		4,282	5,267
Income tax expense	20	1,564	504
Provision for employee benefits	27	867	352
Net interest income		45,578	43,763
Net fee and commission income		12,213	11,376
Collections from written off loans		4,130	1,472
Payments to personnel and service suppliers		(49,377)	(42,991)
Taxes paid		-	-
		25,077	**25,119**
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		926	(1,638)
Loans and advances to banks and customers		87,573	(355,986)
Other assets		(9,234)	(7,222)
Deposits from banks and customers		(131,753)	259,865
Other borrowed funds		(66,066)	30,123
Other liabilities		(48,004)	(30,275)
Net cash used in operating activities		**(141,481)**	**(80,014)**
Cash flows from investing activities			
Acquisition of fixed assets	13,14	(2,948)	(4,143)
Proceeds from sales of fixed assets		150	3,611
Acquisition of available for sale financial assets	10	(17,832)	(8,244)
Proceeds from sales of available for sale financial assets	10	26,264	34,288
Net cash from financing activities		**5,634**	**25,512**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities issued		75,718	57,645
Repayment of funds borrowed and debt securities issued		(83,999)	(75,000)
Capital increase	23	-	10,000
Net cash used in financing activities		**(8,281)**	**(7,355)**
Net decrease in cash and cash equivalents		**(144,128)**	**(61,857)**
Cash and cash equivalents at the beginning of the year		**325,789**	**394,856**
Effect of exchange rate fluctuations on cash and cash equivalents		31,393	(7,210)
Cash and cash equivalents at the end of the year	5	**213,054**	**325,789**

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

1. GENERAL INFORMATION

Turkish Bank A.Ş. ("the Bank") was incorporated in Turkey on 14 September 1991 and commenced operations on 25 December 1991. The registered office address of the Bank is as follows: Vali Konağı Cad. 1, 34371 Nişantaşı - Istanbul, Turkey. The Bank has 13 branches (2014: 18). The Bank and its subsidiaries in total have 306 employees as of 2015 (2014: 363).

Pursuant to the permission of Competition Board dated 8 November 2008 and numbered 07-85/1045-405 and the permission of Banking Regulation and Supervision Agency dated 28 December 2008 and numbered 17591, National Bank of Kuwait acquired 31.43% of shares of the Bank amounting to TL 22,000 from Özyol Holding A.Ş. The Board of Directors approved the acquisition on 10 January 2008 and the share transfer was registered on 29 January 2008.

Upon the resolution carried at the extraordinary general meeting of the shareholders held on 29 January 2008, the Bank's paid-in capital (TL 70,000) was raised to TL 80,000 by a cash increase of TL 10,000. Increase in paid-in capital was registered in the Trade Registry Gazette No: 6995 on 8 February 2008. The entire increase amount was paid in by the new shareholder National Bank of Kuwait as of the date of the extraordinary general meeting. The share of National Bank of Kuwait in the Bank's paid in capital increased to 40% after the capital increase. The shares issued during the capital increase are premium shares. National Bank of Kuwait paid TL 47,448 (USD 40,000) in respect of nominal shares of TL 10,000 and the difference of TL 37,448 was accounted as premium in excess of par.

At the extraordinary general meeting of the Bank held on 25 May 2012, the following decisions have been made by the majority of votes:

- The Bank's paid in capital amounting to TL 80,000 will be increased to TL 175,000 and TL 70,000 of the increased amount will be covered by internal resources, including TL 37,448 of Share Premiums, TL 19,032 of Inflation Difference, TL 13,520 of Extraordinary Reserves and the remaining amount, which equals to TL 25,000, will be covered in cash; and
- TL 25,000 of cash of which is the committed part of the capital increase will include TL 7,500 of payment in June 2014 and April 2013 (amounting to TL 15,000) and TL 10,000 of payment in April 2014 with reserving the Bank's General Assembly's earlier payment call right.

Procedures both related to TL 70,000 of the increased capital amount which will be covered by internal resources and the first TL 7,500 of capital increase portion were completed upon the Banking Regulation and Supervision Agency's letters of approval issued as at 28 May 2012 and 10 August 2012, respectively and related accounting was recognized in the financial statements accordingly.

Since one of the Bank's main shareholder's, namely National Bank of Kuwait, did not participate in the capital increase, its interest in the Bank's paid in capital as of the balance sheet date is decreased to 34.29% (31 December 2014: 34.29% Accordingly, as of the balance sheet date, other main shareholders', namely Özyol Holding A.Ş and Mehmet Tanju Özyol, interests in the paid in capital is increased to 58.92% and 5.66% (31 December 2014: 5.66%), respectively subsequent to their contribution to the capital increase.

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

1. GENERAL INFORMATION (cont'd)

As of 31 December 2015 and 31 December 2014, the composition of shareholders and their respective % of ownership are summarized as follows:

	31 December 2015		31 December 2014	
	Amount	**%**	**Amount**	**%**
Özyol Holding A.Ş.	103,118	58.92	103,114	58.92
National Bank of Kuwait	60,000	34.29	60,000	34.29
Mehmet Tanju Özyol	9,861	5.63	9,910	5.66
Others	2,021	1.16	1,976	1.13
Total	**175,000**	**100**	**175,000**	**100.00**

The Group Information

For the purposes of the accompanying consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

The operations of the Group consist of banking, securities brokerage, leasing and factoring.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2015 and 31 December 2014 are as follows:

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		2015	**2014**
Turkish Yatırım A.Ş.	Turkey	99.99	99.99
Tasfiye Halinde Turkish Finansal Kiralama A.Ş.	Turkey	99.99	99.99
Turkish Bilgi İşlem Hizmetleri A.Ş.	Turkey	99.99	99.99

Turkish Yatırım A.Ş.

Turkish Yatırım A.Ş. was established on 31 December 1996 to deal with capital market activities according to the related regulations and the Capital Market Law. The head office of the Company is domiciled in Abdi İpekçi Caddesi, No: 57, Reasürans Han Kat: 5 Harbiye - İstanbul - Turkey.

Tasfiye Halinde Turkish Finansal Kiralama A.Ş.

Turkish Finansal Kiralama A.Ş. is in the process of liquidation as of the reporting date.

Turkish Bilgi İşlem Hizmetleri A.Ş.

Turkish Faktoring Hizmetleri A.Ş. was established on 9 May 2007 to provide both domestic and export factoring services to industrial and commercial enterprises.

Pursuant to the application of Turkish Faktoring A.Ş. and the permission of Banking Regulation and Supervision Agency dated 23 July 2015 and numbered 6379, the Company's official authorization cancelled. As of 22 October 2015, the Company name became Tukish Bilgi İşlem Hizmetleri A.Ş. The Company provides export and import services of computers and other hardware and the establishments of data processing centres.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance:

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

The consolidated financial statements were approved by the Board of Directors of the Bank on 30 April 2015.

2.2 Basis of measurement:

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale securities, financial assets at fair value through profit and loss and derivative financial instruments that have been measured at fair value.

2.3 Basis of presentation of consolidated financial statements:

The Bank and its subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB").

2.4 Inflation accounting:

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.5 Consolidation:

The consolidated financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional currency.

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.6 Income and Expense Recognition:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered which are recognized as income when received. Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income on overdue loans is recognized on a cash basis when collected. Income and expenses are recognized at fair value or amortized cost basis. For the purpose of convenience, certain income and expenses are recognized on a straight line basis wherever does not materially differ from fair value or amortized cost method.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.7 Functional and Presentation Currency and Foreign Currency Transactions:

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira (TL), which is the functional currency of the Bank and its subsidiaries, and the presentation currency for the consolidated financial statements.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

As at 31 December 2015 and 31 December 2014 foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As of 31 December 2015 and 31 December 2014 exchange rates of US Dollar and Euro are as follows:

	2015	**2014**
1 US Dollar	2.9076	2.3189
1 Euro	3.1776	2.8207

Average rates for the last thirty dates are as follows:

	2015	**2014**
1 US Dollar	2.9076	2.3198
1 Euro	3.1776	2.8296

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets:

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.
Financial assets are classified into the following specified categories: financial assets as "at fair value through profit or loss" (FVTPL), "held-to-maturity investments", "available-for-sale" (AFS) financial assets and "loans and receivables".

Effective interest method

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

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

Financial assets at FVTPL

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

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis. The Group does not have held-to-maturity investments as of the balance sheet date.

Effective interest method

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets: (cont'd)

Financial assets at FVTPL

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

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis. The Group does not have held-to-maturity investments as of the balance sheet date.

Available-for-sale financial assets

Investments other than held-to-maturity debt securities and held for trading securities are classified as available-for-sale, and are measured at subsequent reporting dates at fair value except available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

The Group's investments are composed of Turkish Republic Government bonds, Treasury bills which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices and subsequently measured as explained above in accordance with their classification.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Financial assets (cont'd)

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

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

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

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

2.9 Financial liabilities:

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

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

Financial liabilities at FVTPL

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

The Group does not have financial liabilities at FVTPL as of 31 December 2015 and 31 December 2014.

Other financial liabilities

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

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.9 Financial liabilities (cont'd)

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. 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.

Interest-bearing deposits and borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Equity instruments

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

Off balance sheet commitments and contingencies

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

2.10 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 for 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 Group 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 comparison with similar financial instruments that do have active markets and calculation of present values on an amortized cost basis. Where no reliable estimate of fair value is available, amortized cost is used as the carrying value. As there are a wide range 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 never 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. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Fair value considerations: (cont'd)

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

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

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with 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.

2.11 Derivative financial instruments:

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting date. All unrealized gains and losses on these instruments are included in the statement of income. Unrealized gains and losses on these instruments are not deductible for tax purposes.

The Group's derivative transactions are mainly in the form of forwards and currency swaps.

The Group does not have any derivatives held for hedging purposes.

2.12 Investments under Resale or Repurchase Transactions:

Purchases or sales of investments under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as financial assets at fair value through profit or loss, investments held to maturity or investments available for sale, and interest expense is accounted for on an accrual basis over the period of the transactions.

Purchases of securities under agreements of resale ("reverse repos") are separately disclosed under assets as "funds lent under securities resale agreements" and interest income on such transactions is accounted for on an accrual basis over the period of transactions.

2.13 Loans and Allowance for Impairment Losses:

Loans are financial instruments extended by the Bank and accounted for at amortized cost using the effective interest rate method, except for certain loans wherever straight line accrual basis does not materially differ from amortized cost method.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.13 Loans and Allowance for Impairment Losses (cont'd)

Based on its evaluation of the current status of the loans granted, the Bank provides allowance for impairment losses on loans which it considers are adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known.

The Bank classifies any loan which is not adequately collateralized or the management believing borrowers lost their creditworthiness into overdue loans. The Bank ceases to recognize income on overdue loans and receivables.

2.14 Leasing - the Group as lessor:

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

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Provision for doubtful finance lease receivables and other receivables are recognized as an expense and written off against the profit for the year. Provision for receivables under follow-up is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current finance lease receivables.

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

2.15 Leasing - the Group as Lessee:

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

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.16 Factoring Receivables:

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment. Provision for impaired factoring receivables are recognized as an expense and written off against the profit for the year. Provision for impaired factoring receivables is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current factoring receivables.

2.17 Property and equipment:

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

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

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

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

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

Premises and equipment are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

Buildings	2%
Vehicles	20%
Machinery and equipment	20%
Furniture and fixtures	20%
Other	20%

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.18 Intangible assets:

Intangible assets of the Group consist of computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

2.19 Impairment of non-financial assets:

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

2.20 Borrowing costs:

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

2.21 Provisions:

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

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

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

2.22 Severance indemnity provision:

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

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.23 Taxation and deferred income taxes:

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

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

Deferred tax

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred tax (cont'd)

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

Current and deferred tax for the period

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

2.24 Business and Geographical Segments:

Business Segments

For key decision makers' review purposes, the Group is currently organized into the operating divisions of banking and securities brokerage. These divisions are the basis on which the Group reports its primary segment information.

Geographical Segments

The Group's operations are mainly located in Turkey.

2.25 Use of Estimates:

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

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.8.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.25 Use of Estimates (cont'd)

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

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.8. For financial instruments that require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

2.25 Use of Estimates (cont'd):

Critical accounting judgements in applying the Group's accounting policies

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

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.8.

Financial asset and liability classification

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

- In classifying financial assets and liabilities as "trading", the Group has determined that it meets the description of held for trading investments and liabilities set out in accounting policy 3.8.
- In classifying financial assets as "available for sale", the Group has determined that it meets the description of available for sale investments set out in accounting policy 3.8.

Details of the Group's classification of financial assets and liabilities are given in note 30.

2.26 Offsetting:

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

2.27 Customer Assets:

Customer assets, except for deposits accepted and other cash proceeds obtained, held under custody, in fiduciary, agency or intermediary capacity are not recognized in the accompanying consolidated financial statements as customers have ownership of such assets.

3. ADOPTION OF NEW AND REVISED STANDARDS

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 January 2015, but early adoption is permitted. The Group has not applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 9 **-** *Financial Instruments*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group. Given the nature of the Group's operations, this standard is expected to have an impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in a change in the overall level of impairment allowances.

IFRS 15 Revenue from Contracts with customers

The standard replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognising revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 "Property, Plant and Equipment" explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 "Intangible Assets" introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The amendments are effective for annual periods beginning on after 1 January 2016, and are to be applied prospectively. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Accounting for acquisition of interests in joint operations (Amendments to IFRS 11)

The amendments clarify whether IFRS 3 "Business Combinations" applies when an entity acquires an interest in a joint operation that meets that standard's definition of a business. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

3. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

IFRS 14 Regulatory Deferral Accounts

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

Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)

The amendments address the conflict between the existing guidance on consolidation and equity accounting. The amendments require the full gain to be recognised when the assets transferred meet the definition of a "business" under IFRS 3– "Business Combinations". The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Equity method in separate financial statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Disclosure Initiative (Amendments to IAS 1)

The narrow-focus amendments to IAS 1 "Presentation of Financial Statements" clarify, rather than significantly change, existing IAS 1 requirements. In most cases the amendments respond to overly prescriptive interpretations of the wording in IAS 1. The amendments relate to the following: Materiality, order of the notes, subtotals, accounting policies and disaggregation. The amendments apply for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

Before the amendment, it was unclear how to account for an investment entity subsidiary that provides investment-related services. As a result of the amendment, intermediate investment entities are not permitted to be consolidated. So where an investment entity's internal structure uses intermediates, the financial statements will provide less granular information about investment performance – i.e. less granular fair values of, and cash flows from, the investments making up the underlying investment portfolio.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

3. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

Improvements to IFRSs

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

Annual Improvements to IFRSs – 2012–2014 Cycle

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

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

IFRS 7 "Financial Instruments: Disclosures"

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

IAS 19 "Employee Benefits"

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

IAS 34 "Interim Financial Reporting"

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

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

4. SEGMENTAL INFORMATION

Business segments

2015	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Net interest income	20,211	11,292	2,837	19,668	54,008
Net fee and commission income	1,472	2,221	7,106	(1,200)	9,599
Foreign exchange gains / (losses), net	-	-	165	2,437	2,602
Trading gains and losses, net	-	-	337	(1,585)	(1,248)
Gains / losses from investment securities, net	-	-	34	(8)	26
Other operating income	507	140	221	3,141	4,009
Impairment losses on loans and advances, net	(3,768)	-	-	(514)	(4,282)
Other operating expenses	(13,929)	-	(10,798)	(34,850)	(59,577)
Profit / (Loss) before taxations	**4,493**	**13,653**	**(98)**	**(12,911)**	**5,137**
Income tax expense	-	-	19	(1,583)	(1,564)
Net profit / (Loss)	**4,493**	**13,653**	**(79)**	**(14,494)**	**3,573**

Balance Sheet	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Total assets	**406,868**	**360,511**	**39,710**	**410,348**	**1,217,437**
Liabilities	409,278	331,774	13,183	274,642	1,028,877
Equity	-	-	-	188,560	188,560
Total liabilities and equity	**409,278**	**331,774**	**13,183**	**463,202**	**1,217,437**

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

4. SEGMENTAL INFORMATION (cont'd)

Business segments (cont'd)

2014	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Net interest income	23,272	11,158	1,851	11,991	48,272
Net fee and commission income	2,356	630	6,661	(442)	9,205
Foreign exchange gains / (losses), net	-	-	33	(2,245)	(2,212)
Trading gains and losses, net	-	-	-	1,148	1,148
Gains / losses from investment securities, net	-	-	49	35	84
Other operating income	1,297	243	138	3,045	4,723
Impairment losses on loans and advances, net	(1,860)	-	-	(3,109)	(4,969)
Other operating expenses	(15,008)	(1,361)	(9,496)	(26,261)	(52,126)
Profit / (Loss) before taxations	**10,057**	**10,670**	**(764)**	**(15,838)**	**4,125**
Income tax expense	-	-	103	(607)	(504)
Net profit / (Loss)	**10,057**	**10,670**	**(661)**	**(16,445)**	**3,621**

Balance Sheet	**Consumer/ Commercial**	**Corporate**	**Investment and Brokerage**	**Treasury/ Head Office**	**Total**
Total assets	**612,953**	**206,342**	**27,330**	**569,468**	**1,416,093**
Liabilities	605,759	198,633	14,994	409,733	1,229,119
Equity	-	-	-	186,974	186,974
Total liabilities and equity	**605,759**	**198,633**	**14,994**	**596,707**	**1,416,093**

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

5. CASH AND CASH EQUIVALENTS

	2015	2014
Cash on hand	7,918	9,510
Demand deposit with the Central Bank of Turkey	81,078	111,549
Total	**88,996**	**121,059**

a) Balances with the Central Bank

	2015	2014
Demand deposits – Turkish Lira	26,002	58,616
Demand deposits – Foreign Currency	55,076	52,933
Total	**81,078**	**111,549**

b) Reserve Deposits at the Central Bank

	2015	2014
Reserves – Foreign Currency (Note 15)	75,128	68,125
Total	**75,128**	**68,125**

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to the Central Bank of the Republic of Turkey’s (“CBT”) Communiqué numbered 2013/15 “Required Reserves”. The Bank’s total domestic liabilities excluding the items stated in the Communiqué as deductibles, the deposits accepted on behalf of foreign branches from Turkey and loans obtained by the banks but followed under foreign branches constitute the required reserves liabilities.

The reserve rates for TL liabilities vary between 5.00% and 11.50% for TL deposits and other liabilities according to their maturities as of. The reserve rates for foreign currency deposits vary between 9.00% and 13.00% and for other foreign currency liabilities between 6.00% and 13.00% as of 31 December 2015.

CBT started to pay interest for the Turkish Lira reserve since November 2015.

Cash and cash equivalents at the end of the period:

	2015	2014
Cash	**101,531**	**125,196**
Cash in TL / Foreign currency	7,918	9,510
CBRT	81,078	111,549
Banks	12,535	4,137
Cash equivalents	**111,523**	**200,593**
Interbank money market	56,851	19,102
Time deposits (Up to 3 month)	54,672	181,491
Total cash and cash equivalents	**213,054**	**325,789**

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

6. LOANS AND ADVANCED TO BANKS

	2015	2014
Domestic Banks		
Demand deposits – Turkish Lira	135	654
Demand deposits – Foreign currency	682	647
Time deposits – Turkish Lira	33,625	42,090
Time deposits – Foreign currency	29,501	139,448
Total	**63,943**	**182,839**
Banks Abroad		
Demand deposits – Foreign currency	3,347	2,836
Total	**3,347**	**2,836**
Grand Total	**67,290**	**185,675**

The time deposits in Turkish Lira above mature within one month and earn interest at rates ranging from 9.75% to 15.30% (31 December 2014: from 4.00% to 11.10%) per annum. The time deposits in foreign currency above mature within one month and earn interest at rates ranging from 0.01% to 0.45% (31 December 2014: from 0.20% to 3.50%) per annum.

7. MONEY MARKET PLACEMENTS

	2015	2014
Funds lent under reverse repurchase agreements	9,002	8,002
Interbank placements	47,855	11,115
Total	**56,857**	**19,117**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015	2014
Trading securities	2,589	3,564
Derivative financial instruments	573	1,765
Total	**3,162**	**5,329**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (cont'd)

a) Trading Securities

	2015	2014
Corporate bonds	2,589	3,564
Total	**2,589**	**3,564**

As of 31 December 2015, the fair value of the government securities kept at Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and in Capital Markets Board of Turkey for legal requirements and as a guarantee for stock exchange and money market operations.

b) Derivative financial instruments

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments depend on movements in price in one or more underlying instruments, reference rates or indices.

Derivative financial instruments of the Group mainly include forwards, cross currency swaps and interest rate swaps.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (cont'd)

b) Derivative financial instruments (cont'd)

The fair values and nominal amounts of derivative instruments with their contractual maturities are set out in the following table:

	2015							
	Fair value assets	**Fair value liabilities**	**Up to 1 month**	**1 to 3 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Notional amount in TL equivalent**
Forward exchange contracts	**25**	**12**	**30,663**	**-**	**-**	**-**	**-**	**30,663**
Purchases	-	-	15,348	-	-	-	-	15,348
Sales	-	-	15,315	-	-	-	-	15,315
Currency swap	**499**	**1,177**	**123,921**	**119,993**	**2,470**	**-**	**-**	**246,384**
Purchases	-	-	61,609	60,009	1,236	-	-	122,854
Sales	-	-	62,312	59,984	1,234	-	-	123,530
Interest rate swap	**49**	**149**	**-**	**43,614**	**4,000**	**-**	**-**	**47,614**
Purchases	-	-	-	21,807	2,000	-	-	23,807
Sale	-	-	-	21,807	2,000	-	-	23,807
Total	**573**	**1,338**	**154,584**	**163,607**	**6,470**	**-**	**-**	**324,661**

	2014							
	Fair value assets	**Fair value liabilities**	**Up to 1 month**	**1 to 3 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Notional amount in TL equivalent**
Forward exchange contracts	**6**	**2**	**5,172**	**-**	**-**	**-**	**-**	**5,172**
Purchases	-	-	2,601	-	-	-	-	2,601
Sales	-	-	2,571	-	-	-	-	2,571
Currency swap	**1,714**	**699**	**96,285**	**12,243**	**-**	**-**	**-**	**108,528**
Purchases	-	-	47,937	6,957	-	-	-	54,894
Sales	-	-	48,348	5,286	-	-	-	53,634
Interest rate swap	**45**	**7**	**-**	**-**	**-**	**38,784**	**-**	**38,784**
Purchases	-	-	-	-	-	19,392	-	19,392
Sale	-	-	-	-	-	19,392	-	19,392
Total	**1,765**	**708**	**101,457**	**12,243**	**-**	**38,784**	**-**	**152,484**

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

9. LOANS AND ADVANCES TO CUSTOMERS

	2015	**2014**
Corporate loans	400,057	597,800
Small and medium enterprise loans	274,496	225,623
Consumer loans	4,229	6,396
Credit card receivables	1,603	1,914
Other	149,832	77,024
Subtotal	**830,217**	**908,757**
Specific allowance for impairment losses on loans	(11,462)	(8,313)
Collective allowance for loan losses	(7,678)	(7,765)
Total	**811,077**	**892,679**

Average interest rates applied to loans and advances to customers are as follows:

31 December 2015	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.46	5.71	15.1

31 December 2014	**EUR %**	**USD %**	**TRY %**
Loans and advances to customers	5.37	5.52	12.8

31 December 2015	**Corporate**	**SME**	**Consumer**	**Other**	**Total**
Neither past due nor impaired	396,965	254,937	5,115	146,369	803,386
Past due not impaired	-	713	625	10,167	11,505
Individually impaired	6,064	5,706	489	3,067	15,326
Total gross	**403,029**	**261,356**	**6,229**	**159,603**	**830,217**
Less: allowance for individually impaired loans	3,092	4,815	61	3,494	11,462
Less: allowance for collectively impaired loans	-	-	-	7,678	7,678
Total allowance for impairment	**3,092**	**4,815**	**61**	**11,172**	**19,140**
Total loans (net)	**399,937**	**256,541**	**6,168**	**148,431**	**811,077**

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

9. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

31 December 2014	Corporate	SME	Consumer	Other	Total
Neither past due nor impaired	597,800	214,652	7,043	71,262	890,757
Past due not impaired	-	3,851	753	605	5,209
Individually impaired	-	7,120	514	5,157	12,791
Total gross	**597,800**	**225,623**	**8,310**	**77,024**	**908,757**
Less: allowance for individually impaired loans	-	4,272	74	3,967	8,313
Less: allowance for collectively impaired loans	-	-	-	7,765	7,765
Total allowance for impairment	**-**	**4,272**	**74**	**11,732**	**16,078**
Total loans (net)	**597,800**	**221,351**	**8,236**	**65,292**	**892,679**

Movement in allowance for the impairment losses on loans are as follows:

Specific Allowance for Individual Impairment Losses:	2015	2014
As at 1 January	8,313	6,751
Charge for the year	3,872	2,245
Reversal of impairment allowances no longer required	(723)	(683)
Amounts written off	-	-
As at 31 December	**11,462**	**8,313**

Collective allowance for Loan Losses:	2015	2014
As at 1 January	7,765	4,371
Charge for the year	-	3,394
Reversal of impairment allowances no longer required	(87)	-
As at 31 December	**7,678**	**7,765**

A reconciliation of the allowance for individual impairment losses on loans by customer groups is as follows:

31 December 2015	Corporate	SME	Consumer	Other	Total
At 1 January	-	4,272	74	3,967	8,313
Charge for the year	3,092	661	-	119	3,872
Recoveries	-	(118)	(13)	(592)	(723)
Reversal of impairment allowances no longer required	-	-	-	-	-
Balance as at 31 December	**3,092**	**4,815**	**61**	**3,494**	**11,462**

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

9. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

2014	Corporate	SME	Consumer	Other	Total
At 1 January	-	2,906	37	3,808	6,751
Charge for the year	-	1,758	37	450	2,245
Recoveries	-	(242)		(291)	(533)
Reversal of impairment allowances no longer required	-	(150)	-	-	(150)
Balance as at 31 December	**-**	**4,272**	**74**	**3,967**	**8,313**

The total value of collaterals that the Group held for impaired loans as at 31 December 2015 was TL 999 (31 December 2014: TL 5,882). The total value of collaterals that the Group held for loans that are not impaired as at 31 December 2015 was TL 708,327 (31 December 2014: TL 683,090).

Carrying amounts per class of financial assets whose terms have been renegotiated are as follows:

	31 December 2015	31 December 2014
Corporate	77	145
Consumer	271	11
Total	**348**	**156**

10. AVAILABLE FOR SALE FINANCIAL ASSETS

	31 December 2015	31 December 2014
Government bonds and treasury bills	48,356	31,039
Private sector bonds	15,783	42,648
Equities	160	160
Total	**64,299**	**73,847**

As of 31 December 2015, the government bonds and treasury bills with fair value of TL 64,299 (31 December 2014: TL 73,847) were sold to the Group's customers under repurchase agreements. The funds collected from those repo transactions were TL 32,821 (31 December 2014: TL 28,875) and they are included in obligations under repurchase agreements.

The blocked securities kept by the Central Bank and IMKB (Istanbul Stock Exchange) Takas ve Saklama Bankası A.Ş. for the purposes of trading guarantee on interbank, bond, repurchase and reverse repurchase markets and custody services as of 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015		31 December 2014	
	Nominal Value	Carrying Value	Nominal Value	Carrying Value
Government bonds and treasury bills	9,178	9,176	7,076	7,113

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

10. AVAILABLE FOR SALE FINANCIAL ASSETS (cont'd)

The movement in available for sale financial assets may be summarized as follows:

	31 December 2015	31 December 2014
Balance as at 1 January	**73,847**	**100,116**
Additions	17,832	8,244
Disposals (sales and redemption)	(26,264)	(34,288)
Net changes in fair value	(1,116)	(225)
Balance as at 31 December	**64,299**	**73,847**

11. LEASING RECEIVABLES

The allocation of finance lease receivables according to their maturities, excluding net of impaired lease receivables, is as follows;

2015	Finance lease receivables (Gross)	Unearned Interest	Finance lease receivables (Net)
2016	418	30	388
2017	87	1	86
Total	**505**	**31**	**474**

2014	Finance lease receivables (Gross)	Unearned Interest	Finance lease receivables (Net)
2015	359	59	300
2016	359	19	340
2017 and later	106	16	90
Total	**824**	**94**	**730**

As at 31 December 2015 the Group has no collaterals obtained for the lease receivables under follow up (2014: TL 1,564). The Group has no collaterals obtained for the receivables that are past due but not impaired:

The Group revises the estimated fair values of the collaterals taken against the receivables under follow-up based on the current market conditions and considers such revised collateral amounts when determining impairment.

As at 31 December 2015, the Group obtained guarantees (including mortgage, bank letter of guarantees, and others) from its customers amounting to TL 9,500 (31 December 2014: TL 8,110) against its lease receivables which are not under follow up.

12. FACTORING RECEIVABLES

As at 31 December 2015 and 31 December 2014, short-term and long-term factoring receivables included in the loans and receivables above are as follows:

	31 December 2015	31 December 2014
Short term	10,198	18,097
Long term	-	-
Total	**10,198**	**18,097**

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

13. PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Other fixed assets	Leasehold improvements	Total
Acquisition cost					
Opening balance, 1 January 2015	13,598	146	10,886	1,970	26,600
Additions	108	-	556	-	664
Disposals	(220)	(36)	(1,061)	-	(1,317)
Closing balance, 31 December 2015	**13,486**	**110**	**10,381**	**1,970**	**25,947**
Accumulated depreciation					
Opening balance, 1 January 2015	6,671	135	9,497	1,539	17,842
Charge for the year	268	-	506	236	1,010
Disposals	-	(25)	(1,057)	-	(1,082)
Closing balance, 31 December 2015	**6,939**	**110**	**8,946**	**1,775**	**17,770**
Net carrying amount as of 31 December 2015	**6,547**	**-**	**1,435**	**195**	**8,177**
Net carrying amount as of 1 January 2015	**6,927**	**11**	**1,389**	**431**	**8,758**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

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

13. PROPERTY AND EQUIPMENT (cont'd)

	Buildings	Vehicles	Other fixed assets	Leasehold improvements	Total
Acquisition cost					
Opening balance, 1 January 2014	14,849	146	10,576	1,825	27,396
Additions	132	-	464	172	768
Disposals	(1,383)	-	(154)	(27)	(1,564)
Closing balance, 31 December 2014	**13,598**	**146**	**10,886**	**1,970**	**26,600**
Accumulated depreciation					
Opening balance, 1 January2014	6,405	126	9,138	1,265	16,934
Charge for the year	268	9	508	276	1,061
Disposals	(2)	-	(149)	(2)	(153)
Closing balance, 31 December 2014	**6,671**	**135**	**9,497**	**1,539**	**17,842**
Net carrying amount as of 31 December 2014	**6,927**	**11**	**1,389**	**431**	**8,758**
Net carrying amount as of 1 January 2014	**8,444**	**20**	**1,438**	**560**	**10,462**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

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

14. INTANGIBLE ASSETS

	Software	Total
Acquisition cost		
Opening balance, 1 January 2015	8,272	8,272
Additions	2,284	2,284
Disposals	(1,131)	(1,131)
Closing balance, 31 December 2015	**9,425**	**9,425**
Accumulated amortization		
Opening balance, 1 January 2015	4,105	4,105
Charge for the year	1,237	1,237
Disposals	(6)	(6)
Closing balance, 31 December 2015	**5,336**	**5,336**
Net carrying amount as of, 31 December 2015	**4,089**	**4,089**
Net carrying amount as of 1 January 2015	**4,167**	**4,167**

	Software	Total
Acquisition cost		
Opening balance, 31 December 2014	4,906	4,906
Additions	3,375	3,375
Disposals	(9)	(9)
Closing balance, 1 January 2014	**8,272**	**8,272**
Accumulated amortization		
Opening balance, 31 December 2014	3,419	3,419
Charge for the year	694	694
Disposals	(8)	(8)
Closing balance, 31 December 2014	**4,105**	**4,105**
Net carrying amount as of 31 December 2014	**4,167**	**4,167**
Net carrying amount as of 1 January 2014	**1,487**	**1,487**

Estimated useful lives for intangible assets vary between three to fifteen years.

As at 31 December 2015, the Group has no intangible asset that has been generated internally (2014: None).

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

15. OTHER ASSETS

	2015	**2014**
Restricted amounts held with Central Bank	75,128	68,125
Clearance account	12,719	10,453
Cash advances given	1,316	1,008
Prepaid rent expense	1,636	189
Customer collateral	2,086	1,042
Other	7,108	3,015
Total	**99,993**	**83,832**

16. DEPOSITS

31 December 2015	**Time**	**Demand**	**Total**
TL Deposit	**220,502**	**19,363**	**239,865**
Savings deposits	181,319	7,628	188,947
Commercial deposits	32,254	11,121	43,375
Deposit from banks	6,929	614	7,543
Foreign banks	*1,928*	*560*	*2,488*
Domestic banks	*5,001*	*54*	*5,055*
FC deposits	**498,816**	**34,551**	**533,366**
Savings deposits	-	-	-
Commercial deposits	370,464	32,400	402,863
Deposit from banks	128,352	2,151	130,503
Foreign banks	*99,272*	*2,151*	*101,424*
Domestic banks	*29,079*	-	*29,079*
Total	**719,318**	**53,914**	**773,231**

Average interest rate for the deposits is 10.91% per annum for Turkish Lira deposits. For foreign currency deposits the average interest rate is 1.77% for US Dollar deposits and 1.58% for Euro deposits (31 December 2014: 8.16% for Turkish Lira deposits, 1.89% for US Dollar deposits and 1.92% for Euro deposits).

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

16. DEPOSITS (cont'd)

31 December 2014	**Time**	**Demand**	**Total**
TL Deposit	**325,933**	**22,738**	**348,671**
Savings deposits	192,672	9,206	201,878
Commercial deposits	44,850	13,181	58,031
Deposit from banks	88,411	351	88,762
Foreign banks	*12,355*	*329*	*12,684*
Domestic banks	*76,056*	*22*	*76,078*
FC deposits	**514,820**	**41,632**	**556,452**
Savings deposits	-	-	-
Commercial deposits	385,704	40,104	425,808
Deposit from banks	129,116	1,528	130,644
Foreign banks	*97,442*	*1,528*	*98,970*
Domestic banks	*31,674*	-	*31,674*
Total	**840,753**	**64,370**	**905,123**

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS AND MONEY MARKET FUNDING

	31 December 2015	**31 December 2014**
Funds lent under reverse repurchase agreements	32,821	28,875
Interbank placements	2,820	6,600
Total	**35,641**	**35,475**

18. FUNDS BORROWED

	31 December 2015	**31 December 2014**
Borrowings from abroad:		
Foreign banks – TL short-term	2,201	3,032
Foreign banks – FC short-term	132,967	6,885
Total	**135,168**	**9,917**
Local bank borrowings:		
Borrowings from local banks – TL short term	3,068	22,101
Borrowings from local banks – FC short term	723	172,886
Total	**3,791**	**194,987**
Grand Total	**138,959**	**204,904**

The interest rates for TL borrowings are between 6.20% and 9.75% (31 December 2014: 5.53% and 9.21%) while interest rates for foreign currency borrowings are between 0.10% and 2.54% (31 December 2014: 0.15% and 3.67%).

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

19. DEBT SECURITIES ISSUED

	Maturity Date	2015	2014
TL 16.7 million of bonds with a coupon rate of 10.33%	27 Mar 2015	-	16,293
TL 6 million of bonds with a coupon rate of 10.03%	27 Mar 2015	-	4,997
TL 10.7 million of bonds with a coupon rate of 8.86%	15 May 2015	-	10,780
TL 19.3 million of bonds with a coupon rate of 9.03%	15 May 2015	-	18,713
TL 3.8 million of bonds with a coupon rate of 10.03%	28 September 2015	-	3,835
TL 3.2 million of bonds with a coupon rate of 10.54%	28 September 2015	-	3,231
Tl 15 million discounted bond	25 January 2016	14,895	-
TL 13 million discounted bond	29 March 2016	12,662	-
TL 24 million discounted bond	15 April 2016	23,221	-
Total		**50,778**	**57,849**

20. TAXATION

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. 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.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate of tax on 31 December 2015 is 12 % for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate on 31 December 2015 is 20% (31 December 2014: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

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

20. TAXATION (cont'd)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate.

Corporate Tax (cont'd)

Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. This rate was changed to 15% commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

In the accompanying consolidated financial statements corporate tax and deferred tax asset/liability are comprised of the following:

Statement of Financial Position: Corporate tax

	2015	**2014**
Corporate tax provision	2,460	3,157
Prepaid taxes	(144)	(128)
Net corporate tax payable	**2,316**	**3,029**

Income Statement

	2015	**2014**
Current income tax charge	(1,211)	(914)
Deferred tax benefit	(353)	410
Total	**(1,564)**	**(504)**

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

20. TAXATION (cont'd)

Total charge for the year can be reconciled to the accounting profit as follows:

	31 December 2015	31 December 2014
Profit before income/(expense) tax	**5,137**	**4,125**
Taxes on income per statutory tax rate	(1,027)	(825)
Disallowable expenses	(46)	16
Other	(491)	305
Total	**(1,564)**	**(504)**

Deferred Income Tax

Temporary differences and corresponding deferred taxes are as follows:

	Deferred tax assets		Deferred tax liabilities		Net assets / (liabilities)	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Loan loss impairment provision	1,536	1,553	-	-	1,536	1,553
Employee benefits	554	647	-	-	554	647
Carry forward tax losses	128	543	-	-	128	543
Difference between carrying value and tax base of property and equipment	226	186	(13)	(11)	213	175
Court case provision	20	20	-	-	20	20
Valuation differences on investment securities	376	36	(2)	(171)	374	(135)
Subtotal	**2,840**	**2,985**	**(15)**	**(182)**	**2,825**	**2,803**
Net off	**-**	**(135)**	**-**	**135**		
Total	**2,840**	**2,850**	**(15)**	**(47)**		

The movement of net deferred tax assets can be presented as follows:

	31 December 2015	31 December 2014
Deferred tax assets, net at 1 January	**2,803**	**2,325**
Deferred tax (expense)/income recognized in the profit or loss	(353)	410
Deferred tax income recognized in other comprehensive income	375	68
Deferred tax assets, net at 31 December	**2,825**	**2,803**

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

21. EMPLOYEE BENEFITS AND OTHER PROVISIONS

	31 December 2015	31 December 2014
Provision for severance indemnity	2,006	1,139
Vacation pay liability	448	436
Provisions for the court cases	221	-
Other short term employee benefits	638	-
Other short-term employee benefit provision	493	1,637
Total provisions	**3,806**	**3,212**

Provision for severance indemnity

Under Turkish Labour Law, The Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their severance indemnity provisions who retired by gaining right to receive severance indemnity provisions according to current 506 numbered Social Insurance Law's 6 March 1981 dated. 2422 numbered. 25 August 1999 dated and 4447 numbered with 60th article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of full TL 3,828 (31 December 2014: full TL 3,438) for each period of service at 31 December 2015.

The liability of employee termination benefits is not funded as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 19 (Employee Benefits) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2015, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 6.00% discount rate of 10.5% and real discount rate of approximately 4.25% (31 December 2014: annual inflation rate of 5.00%, discount rate of 8.00% and real discount rate of approximately 2.86%). Anticipated turnover rate is also included in the calculation.

The movement for the provision for the severance indemnity

	2015	2014
Balance as at 1 January	**1,139**	**735**
Payments made during the year	(1,290)	(564)
Service cost	92	268
Interest cost	92	82
Actuarial losses	980	616
Gain/(losses) due to payments / discharge	993	2
Balance as at 31 December	**2,006**	**1,139**

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

22. OTHER LIABILITIES

	2015	**2014**
Clearance account	13,215	11,486
Payables to card holders	3,264	2,269
Unearned income	422	357
Cash guarantees received	81	81
Other	5,826	4,626
Total	**22,808**	**18,819**

23. EQUITY

Share capital:

		2015		**2014**
Shareholders	**%**		**%**	
Özyol Holding A.Ş.	58.92	103,118	58.92	103,114
National Bank of Kuwait	34.29	60,000	34.29	60,000
Mehmet Tanju Özyol	5.63	9,861	5.66	9,910
Others	1.16	2,021	1.13	1,976
Nominal Value	**100.00**	**175,000**	**100.00**	**175,000**
Effect of inflation		6,868		6,868
Total		**181,868**		**181,868**

At the extraordinary general meeting of the Bank held on 25 May 2012, the following decisions have been made by the majority of votes:

- The Bank's paid in capital amounting to TL 80,000 will be increased to TL 175,000 and TL 70,000 of the increased amount will be covered by internal resources, including TL 37,448 of Share Premiums, TL 19,032 of Inflation Difference, TL 13,520 of Extraordinary Reserves and the remaining amount, which equals to TL 25,000, will be covered in cash; and

- TL 25,000 of cash of which is the committed part of the capital increase will include TL 7,500 of payment in June 2012 and April 2013 and TL 10,000 of payment in April 2014 with reserving the Bank's General Assembly's earlier payment call right.

Procedures both related to TL 70,000 of the increased capital amount which will be covered by internal resources. The first and the second portion of the capital increase, amounting to TL 7,500 respectively, were completed upon the Banking Regulation and Supervision Agency's approvals as of 10 August 2012 and 3 July 2013, respectively the third part of the capital increase, amounting to TL 10,000 completed as of 30 April 2014 and the amounts are recognized in the Bank's financial statements upon the Banking Regulation and Supervision Agency's approvals as of 4 June 2014.

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

23. EQUITY (cont'd)

Since one of the Bank's main shareholder's, namely National Bank of Kuwait, did not participate in the capital increase, its interest in the Bank's paid in capital as of the balance sheet date is decreased to 34.29% (31 December 2014: 34.29%) and subsequent to the payment of TL 17,500 of the remaining capital increase commitment by the shareholders, its interest will decrease to 34.29%. Accordingly, as of the balance sheet date, other main shareholders', namely Özyol Holding A.Ş and Mehmet Tanju Özyol, interests in the paid in capital is increased to 58.92% (31 December 2014: 58.92%) and 5.33% (31 December 2014: 5.33%), respectively subsequent to their contribution to the capital increase. Following the full capital commitment payment, their interests will be increased to 58.92% and 5.66%, respectively.

After the capital increase, the Bank's paid in capital consists of 17.500.000.000 shares having a unit nominal value of 0.01 (in full TL) (31 December 2014: TL 0.01; 17.5000.000.000 shares).

Legal reserves:

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

Retained earnings comprise the actuarial losses recognized from the retirement benefit obligation amounting to TL 1,274 (31 December 2014: TL 449 loss).

24. NET INTEREST INCOME

	2015	2014
Interest income from		
Loans and advances to customers	87,188	80,706
Loans and advances to banks	5,413	3,989
Money market transactions	1,018	1,039
Trading Investments	8,192	10,030
Interest on lease	92	438
Other interest income	1,648	4,005
Total interest income	**103,551**	**100,207**
Interest expense from		
Deposit from customers and banks	(36,023)	(38,033)
Other borrowed funds	(5,498)	(7,387)
Obligations under repurchase agreements and money market funding	(2,323)	(2,099)
Issued debt securities	(5,697)	(4,336)
Other interest expenses	(2)	(80)
Total interest expenses	**(49,543)**	**(51,935)**
Net interest income	**54,008**	**48,272**

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

25. NET TRADING INCOME

	2015	2014
Gains	**1,161,915**	**722,242**
Investment securities	60	127
Derivatives	37,170	17,446
Foreign exchange	1,124,685	704,669
Losses (-)	**1,160,535**	**723,222**
Investment securities	34	43
Derivatives	38,418	16,298
Foreign exchange	1,122,083	706,881
Total gains and losses, net		
Gains from investment securities, net	26	84
Trading gains and losses, net	(1,248)	1,148
Foreign exchange gains and losses, net	2,602	(2,212)
Total	**1,380**	**(980)**

26. OTHER OPERATING INCOME

	2015	2014
Income from the sale of assets	112	2,228
Reversal of provision previously recognized	1,364	56
Other	2,533	2,439
Total	**4,009**	**4,723**

27. OTHER OPERATING EXPENSES

	2015	2014
Wages and salaries	24,682	22,849
Rent expenses	8,147	5,018
Taxes other than income	3,273	3,409
Communication expenses	1,766	1,907
Depreciation and amortization	2,251	1,794
Professional fees and consultancy	2,870	2,033
Saving deposit insurance fund premium	885	786
Repair and maintenance expenses	317	363
Retirement benefit costs	867	352
Marketing and sales expenses	117	133
Other	14,402	13,482
Total	**59,577**	**52,126**

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

28. COMMITMENTS AND CONTINGENCIES

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated financial statements, including letters of guarantee. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

	2015	**2014**
Letters of guarantee	242,607	143,569
Foreign currency	*70,772*	*46,058*
TL	*171,835*	*97,511*
Letters of credit	7,641	39,413
Derivative financial instruments *(Note 26)*	295,253	147,312
Other commitments	79,017	64,806
Total	**624,518**	**395,100**

The Bank has extended TL 629 of non-cash loans to related parties (31 December 2014: TL 380).

The Group provides custody service on behalf and account of its customers. The value of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 212,799 at 31 December 2015 (31 December 2014: TL 148,132).

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

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The main shareholders of the Group are Özyol Holding and National Bank of Kuwait. For the purpose of these consolidated financial statements, associates, shareholders, Özyol Group companies, and National Bank of Kuwait Group entities are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at year-ends and related expense and income for the years are as follows:

	2015	**2014**
Statement of financial position:		
Loans and advances to customers	39	181
Deposits	3,845	4,825
Other funds borrowed	7,267	50,677

	2015	**2014**
Income Statement:		
Interest expense on funds borrowed and deposits	110	14
Fee and commission income	7	-

The remuneration of members of Board of Directors and other members of key management; comprising mainly of salaries and other short-term benefits for the current period is TL 971 (31 December 2014: TL 996).

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

30. FINANCIAL RISK MANAGEMENT

The Group has a Risk Management Group and is functionally independent of risk creating divisions. The Risk Management Group is responsible for identifying and analysing the exposed risks, carrying risk policies and strategies, setting limits in activities to control these risks and finally measuring these risks. The Executive Committee is the party that submits risk strategies and policies to the Board of Directors.

The Value-at-Risk measurement is used in line with local requirements of the capital adequacy calculation.

Risks emerging in the Group's business and activities are defined as credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk, but all are considered as a whole for management purposes.

Capital management

When managing the capital the Group aims to comply with the capital requirements set by the regulators of the banking market where the Parent Bank operates; to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders and to maintain a strong capital base to support the development of its business.

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if banks operate 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 capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk, in accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

The Group's regulatory capital position on a consolidated basis is as follows:

	2015	**2014**
Tier I capital	181,151	178,951
Tier II capital	7,678	7,765
Deductions	-	-
Total regulatory capital	**188,829**	**186,716**
Amount subject to credit risk	71,042	82,157
Amount subject to market risk	799	925
Amount subject to operational risk	8,223	7,870
Capital adequacy ratio (%)	**18.10**	**16.42**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Group by failing to discharge an obligation. Credit exposure arise principally in lending activities that lead to loans and advances and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off balance sheet financial instruments, such as loan commitments.

The Group determines the credit limits and restricts extension of loans and advances exceeding predetermined credit limits. The credit limits are determined for individual customers, companies, group of companies and risk groups separately for each type of product by taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

Counterparty limits are monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored daily.

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. In addition a portfolio based assessment is also made for homogeneous groups of credit.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporate and also guarantees. This system helps make decisions of allocating credit limits and accepted guarantees. The cash loans rated according to the possibility of being in default are classified from the highest grade to the lowest as below:

Basic Loan Quality Categories	**2015**	**2014**
	% In Total Loans	**% In Total Loans**
High grade	12.64	13.58
Standard grade	84.49	85.00
Sub-standard grade	1.37	0.57
Impaired	1.50	0.85
Total	**100.00**	**100.00**

Category "high" shows that the debtor has a strong financial structure, "standard" shows the debtor's financial structure is good enough while "sub-standard" category shows that debtor's financial structure is under risk in the short and medium term.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Sectorial concentration of the Group's cash loans are as follows:

	2015		2014	
Sector		**(%)**		**(%)**
Manufacturing industry	204,031	25.16	138,625	3.75
Financial institutions	187,282	23.09	247,944	24.66
Transportation and communication	94,820	11.69	95,595	8.47
Construction	67,486	8.32	108,237	7.52
Hotel, Tourism, Food and Beverage Services	61,695	7.61	46,124	11.14
Wholesale and Retail Trade	31,720	3.91	28,309	0.59
Mining and quarrying	19,534	2.41	34,354	0.48
Agriculture	3,954	0.49	3,051	0.72
Other	140,555	17.33	190,440	42.67
Performing loans	**811,077**	**100**	**892,679**	**100**

Non-performing loans				
Total loans and advances to customer	3,864		12,791	
Allowance for loan losses	15,326		8,313	
Net loans and advances to customers	**11,462**		**897,157**	

Sectorial concentration of the Group's non-cash loans and commitments are as follows:

	2015		2014	
Sector		**(%)**		**(%)**
Financial institutions	153,303	58.74	68,420	33.76
Manufacturing industry	87,277	33.44	53,182	26.24
Transportation and communication	1,146	0.44	1,283	0.63
Construction	182	0.07	8,239	4.07
Hotel, Tourism, Food and Beverage Services	224	0.09	589	0.29
Wholesale and Retail Trade	1,424	0.55	8,744	4.31
Mining and quarrying	-	-	230	0.11
Agriculture	277	0.11	1,817	0.90
Other	17,174	6.58	60,166	29.69
Total	**261,007**	**100**	**202,670**	**100**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

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

	2015	**2014**
Loans and receivables	811,077	892,679
Balances with the Central Bank	157,121	189,184
Balances with banks	67,290	185,675
Financial assets available for sale	64,299	73,847
Money market placements	56,857	19,117
Factoring receivables	10,198	18,097
Financial assets at fair value through profit and loss	3,162	5,329
Leasing receivables	474	730
Other	107,976	96,545
Total	**1,278,454**	**1,481,203**
Non cash loans and commitments	261,007	202,670
Total	**261,007**	**202,670**

Credit quality per class of financial assets as of 31 December 2015 and 31 December 2014 are as follows:

2015	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans (*)			
Corporate loans	396,965	-	396,965
Small business lending	254,937	14,744	269,681
Consumer loans	5,115	620	5,735
Other	138,691	5	138,696
Total	**795,708**	**15,369**	**811,077**

2014	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Loans (*)			
Corporate loans	597,800	-	597,800
Small business lending	214,652	6,699	221,351
Consumer loans	7,043	1,163	8,206
Other	63,497	1,825	65,322
Total	**882,992**	**9,687**	**892,679**

(*) Includes Loans and Advances to Customers, Leasing Receivables and Factoring Receivables and excludes portfolio provision for loan losses.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

Fair value of collaterals for the impaired loans are as follows:

Type of Collaterals	**2015**	**2014**
Real-estate mortgage	893	5,714
Other	14,433	7,077
Total	**15,326**	**12,791**

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflows to fulfil the cash outflows completely on time.

As per the BRSA Communiqué published on the Official Gazette no.26333 dated 1 November 2006 and became effective starting from June 1, 2007. "Measurement and Assessment of the Adequacy of Banks' Liquidity". The weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100% respectively. The ratios realized during the year 2015 and 2014 are as follows:

The Bank's Foreign Currency (FC) and total (TL+FC) liquidity coverage ratio (LCR) averages for the last three months, the highest value and the lowest value occurred in this period are given below:

	2015		**2014**	
	TL+FC (%)	**FC (%)**	**TL+FC (%)**	**FC (%)**
The lowest value	182.2	120.5	241.4	113.0
Applicable week	23.10.2015	23.10.2015	12.12.2014	12.12.2014
The highest value	241.2	169.6	369.5	150.3
Applicable week	30.10.2015	02.10.2015	21.11.2014	21.11.2014

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

31 December 2015	Demand	Up to 1 Month	1 to 3 Month	3 to 12 Month	1 to 5 Year	Over 5 Year	Unallocated	Total
ASSETS								
Cash and balances with the Central Bank of Turkey	88,996	-	-	-	-	-	-	88,996
Loans and advances to banks	12,535	54,755	-	-	-	-	-	67,290
Money market placements	-	56,857	-	-	-	-	-	56,857
Trading investment securities	-	-	2,589	-	-	-	-	2,589
Derivative financial assets	-	94	399	80	-	-	-	573
Loans and advances to customer	-	232,060	100,935	237,663	185,236	51,319	3,864	811,077
Available for sale financial assets	-	7,785	13,869	13,690	28,795	-	160	64,299
Leasing receivables(net)	-	-	388	86	-	-	-	474
Factoring receivables (net)	-	-	-	10,198	-	-	-	10,198
Property and equipment (net)	-	-	-	-	-	-	8,177	8,177
Intangible assets (net)	-	-	-	-	-	-	4,089	4,089
Deferred tax asset (net)	-	-	-	-	-	-	2,825	2,825
Other assets	-	-	-	-	-	-	99,993	99,993
Total Assets	**101,531**	**351,551**	**118,180**	**261,717**	**214,031**	**51,319**	**119,108**	**1,217,437**
LIABILITIES								
Deposits	53,914	354,604	321,379	25,357	17,977	-	-	773,231
Obligations under repurchase agreements and money market funding	-	32,821	-	-	-	-	2,820	35,641
Funds borrowed	-	7,607	48,236	83,116	-	-	-	138,959
Derivative financial liabilities	-	782	481	75	-	-	-	1,338
Debt securities issued	-	14,895	12,662	23,221	-	-	-	50,778
Corporate tax liability	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	217,490	217,490
Total liabilities	**53,914**	**410,709**	**382,758**	**131,769**	**17,977**	**-**	**220,310**	**1,217,437**
Net liquidity gap	**47,617**	**(59,158)**	**(264,578)**	**129,948**	**196,054**	**51,319**	**(101,202)**	**-**
As at 31 December 2014								
Total assets	69,730	479,248	121,598	278,526	287,099	78,418	101,474	1,416,093
Total liabilities	84,119	628,052	343,974	164,009	94	-	195,845	1,416,093
Net liquidity gap	**(14,389)**	**(148,804)**	**(222,376)**	**114,517**	**287,005**	**78,418**	**(94,371)**	**-**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

Analysis of financial liabilities by the remaining contractual maturities:

31 December 2015	On Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Adjustments	Total
Obligations under repurchase agreements and money market funding	2,820	32,877	-	-	-	-	(56)	35,641
Deposits from banks	2,765	96,710	38,502	161	-	-	(92)	138,046
Deposit from customers	51,149	258,497	284,987	25,584	-	18,322	(3,354)	635,185
Other borrowed funds	-	7,786	48,425	83,815	-	-	(1,067)	138,959
Issued debt securities	-	15,000	13,000	24,000	-	-	(1,222)	50,778
Total	**56,734**	**410,870**	**384,914**	**133,560**	**-**	**18,322**	**(5,791)**	**998,609**

31 December 2014	On Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Adjustments	Total
Obligations under repurchase agreements and money market funding	3,577	31,917	-	-	-	-	(19)	35,475
Deposits from banks	1,877	184,101	33,707	-	-	-	(280)	219,405
Deposit from customers	62,491	336,303	242,214	48,064	89	-	(3,443)	685,718
Other borrowed funds	-	76,392	48,413	81,398	-	-	(1,299)	204,904
Issued debt securities	-	-	21,680	37,320	-	-	(1,151)	57,849
Total	**67,945**	**628,713**	**346,014**	**166,782**	**89**	**-**	**(6,192)**	**1,203,351**

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

31 December 2015	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	More than 5 Years	Total
Interest rate swap purchase	-	21,807	2,000	-	-	23,807
Interest rate swap sale	-	21,807	2,000	-	-	23,807
Currency swap purchase	105,241	1,476	16,137	-	-	122,854
Currency swap sale	107,363	16,166	-	-	-	123,529
Forward exchange rate contracts purchase	15,743	14,920	628	-	-	31,291
Forward exchange rate contracts sale	628	-	-	-	-	628
Total	**228,975**	**76,176**	**20,765**	**-**	**-**	**325,916**

30. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The Group considers currency risk and interest rate risk as the most important constituents of market risk. These are different levels of cut-loss and cut-profit policies to control the risks that may come from the fluctuations in the market.

Other than treasury bill positions, the Group places and borrows funds on a very short term basis, mostly on overnight, keeping the market risk of these transactions at minimum level. Thus, the Group acts quickly to any unexpected fluctuation in the market.

Interest rate risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest-sensitive assets and liabilities. In Turkey, the interest rates are highly volatile and this may result in significant changes in the prices of financial instruments such as government bonds and treasury bills. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

In case of any transactions that are exposed to interest rate risk, cut-loss policies are in place to control this risk. Interest rate risk is controlled and analysed by duration analysis. Furthermore, various simulation techniques are employed in order to analyse the effects of market volatilities on the Group's balance sheet.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

31 December 2015	Up to 1 Month	1 to 3 Month	3 to 12 Month	Over 1 Year	Non-interest bearing	Total
ASSETS						
Cash and balances with the Central Bank of Turkey	-	-	-	-	88,996	88,996
Balances with banks	62,986	-	-	-	4,304	67,290
Interbank money market placements	56,857	-	-	-	-	56,857
Financial assets at fair value through profit or loss (net)	136	2,988	38	-	-	3,162
Available for sale assets	39,241	13,869	11,029	-	160	64,299
Loans and advances to customer	375,130	172,578	116,109	143,396	3,864	811,077
Leasing receivables(net)	-	474	-	-	-	474
Factoring Receivables(net)	-		10,198		-	10,198
Investment securities (net)	-	-	-	-	-	-
Premises and equipment (net)	-	-	-	-	8,177	8,177
Intangible assets (net)	-	-	-	-	4,089	4,089
Deferred tax asset (net)	-	-	-	-	2,825	2,825
Other assets	2,259	75,108	152	305	22,169	99,993
Total Assets	**536,609**	**265,017**	**137,526**	**143,701**	**134,584**	**1,217,437**
LIABILITIES						
Deposits	354,604	321,379	25,357	17,977	53,914	773,231
Obligations under repurchase agreements and money market funding	-	-	-	-	-	-
Interbank money market borrowings	32,821	-	-	-	2,820	35,641
Other borrowed funds	7,604	48,239	83,116	-	-	138,959
Derivative financial liabilities	1,188	110	40	-	-	1,338
Issued debit Securıtıes	14,895	12,661	23,222	-	-	50,778
Other liabilities	3,245	-	-	-	214,245	217,490
Total liabilities	**414,357**	**382,389**	**131,735**	**17,977**	**270,979**	**1,217,437**
Net interest sensitivity gap	**122,252**	**(117,372)**	**5,791**	**125,724**	**(136,395)**	**-**
As at 31 December 2014						
Total assets	824,851	111,949	177,837	135,008	166,448	1,416,093
Total liabilities	585,557	414,436	155,900	87	260,113	1,416,093
Net interest sensitivity gap	**239,294**	**(302,487)**	**21,937**	**134,921**	**(93,665)**	**-**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

As at 31 December 2015 and 31 December 2014, summary of average interest rates for different assets and liabilities are as follows:

	31 December 2015			31 December 2014		
	EURO %	**USD %**	**TL %**	**EURO %**	**USD %**	**TL %**
Assets						
Cash and balances with the Central Bank of Turkey	-	-	0.03	-	-	1.09
Loans and advances to banks	0.01	0.45	14.4	0.1	0.22	10.9
Money market placements	-	-	-	-	-	-
Available for sale Assets	-	-	10.7	-	-	9.28
Loans and advances to customer	5.46	5.71	15.1	5.37	5.52	12.8
Leasing receivables	-	-	-	7.14	5.58	14.2
Factoring receivables	-	-	-	-	-	15.9
Liabilities						
Deposits from banks	1.35	0.65	10.2	1.49	1.1	10.8
Deposits from customers	1.65	1.96	10.9	2.16	2.06	9.85
Obligations under repurchase agreements and money market funding	-	-	7.50	-	-	8.27
Issued debit Securıtıes	-	-	8.83	-	-	11.7
Other Borrowed funds	1.75	2.39	8.77	2.35	2.42	8.31

Interest Rate Sensitivity:

The Group ensures that the risk remains within the predefined limits although the Group is exposed to structural interest rate risk on the statement of financial position due to the nature of its existing activities.

The Bank applies interest sensitivity scenarios with the changes in the interest rate and interest margins, so as to calculate the impact on the income statement and the shareholder's equity.

		31 December 2015		31 December 2014	
Type of currency	**Shocks Applied (+ / - basis point)**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**	**Gains/ Losses**	**Gains/ Equity-Losses/ Equity**
TL	(+) 500	(646)	(0.3%)	69	0.0%
TL	(-) 400	521	0.3%	900	0.5%
USD	(+) 200	(6,013)	(3.1%)	(3,074)	(1.6%)
USD	(-) 200	6,352	3.3%	3,670	1.9%
EUR	(+) 200	(7,140)	(3.7%)	(8,652)	(4.6%)
EUR	(-) 200	6,464	3.4%	8,721	4.6%
Total (for negative shocks)		**13,337**	**7.0%**	**13,291**	**7.0%**
Total (for positive shocks)		**(13,799)**	**(7.1%)**	**(11,657)**	**(6.2%)**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. Long and short exposures are hedged on a portfolio basis with derivative financial instruments that include primarily forward foreign exchange contracts and currency swaps. Currency risk is also controlled through keeping a short position within local requirements.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The tables below summarize the Group's exposures to foreign currency exchange rate risk at 31 December 2015 and 31 December 2014. Included in the table are the Group's assets and liabilities and equity at carrying amounts, categorized by currency.

Currency risk (cont'd)

Foreign currency position of the Group is as follows:

31 December 2015	EURO	USD	Other Foreign Currencies	Total
ASSETS				
Cash and balances with the Central Bank of Turkey	2,046	121,916	11,801	135,763
Loans and advances to banks	7,806	6,741	19,156	33,703
Loans and advances to customer	251,241	266,903	344	518,488
Other assets	357	1,492	-	1,849
Total	**261,450**	**397,052**	**31,301**	**689,803**
LIABILITIES				
Deposits	212,479	252,326	68,561	533,366
Other Borrowed funds	33,126	100,349	215	133,690
Issued debit Securıtıes	2,692	1,953	867	5,512
Other liabilities	66	246	5	317
Total	**248,363**	**354,874**	**69,648**	**672,885**
Net balance sheet position	**13,087**	**42,178**	**(38,347)**	**16,918**
Off-balance sheet position				
Net notional amount of derivatives	**-**	**(39,579)**	**38,875**	**(704)**
As at 31 December 2014				
Total assets	256,952	439,756	41,718	738,426
Total liabilities	256,226	410,320	74,728	741,274
Net balance sheet position	**726**	**29,436**	**(33,010)**	**(2,848)**
Off-balance sheet position				
Net notional amount of derivatives	**(564)**	**(26,006)**	**33,116**	**6,546**

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

Foreign Currency Sensitivity:

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. A positive number indicates an increase USD and EUR in profit or loss and other equity where the TL strengthens against USD, EUR and GBP.

	Change in currency rate in %		Effect on profit or loss		Effect on equity	
			31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
USD	10	Increase	260	343	-	-
USD	10	Decrease	(260)	(343)	-	-
EUR	10	Increase	1,309	16	-	-
EUR	10	Decrease	(1,309)	(16)	-	-

The Group's sensitivity to foreign currency rates has not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving job technology and job definitions, establishing the necessary internal controls and various insurances are employed as the main methods. The internal control and audit mechanism contributes greatly to the management of operational risk.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No, 28337 dated 28 June 2012, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2013, 2012 and 2011, as of 31 December 2015. The total amount subject to operational risk is calculated as TL 102,788 (31 December 2014: TL 98,375) and the amount of the related capital requirement is TL 8,223 (31 December 2014: TL 7,870).

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments

As at 31 December 2015 and 31 December 2014, fair values of financial assets and liabilities are as follows:

	Carrying Value		Fair Value	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Financial Assets				
Financial assets at fair value through profit or loss				
- Trading securities	2,589	3,564	2,589	3,564
- Derivative financial instruments	573	1,765	573	1,765
Available-for-sale financial assets	64,299	73,847	64,299	73,847
Loans (*)	811,077	892,679	774,543	881,441
Total	**878,538**	**971,855**	**842,004**	**960,617**
Financial Liabilities				
Deposits from banks	138,046	219,405	138,122	219,496
Deposit from customers	635,185	685,718	635,011	686,791
Other borrowed funds	138,959	204,904	139,645	206,047
Derivative financial instruments	1,338	708	1,338	708
Issued debt securities	50,778	57,849	50,886	56,941
Total	**964,306**	**1,168,584**	**965,002**	**1,169,983**

(*) Non performing loan amounts are not taken into consideration

The fair value of available for sale securities is based on market prices. Where market prices are not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair value of deposits with no stated maturity, floating rate placements and overnight deposits is their carrying amount. The estimated fair value of bank deposits and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost are considered to approximate their respective carrying values due to their short-term nature.

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

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments (cont'd)

Fair value hierarchy

The fair value hierarchy consists of three levels, depending upon whether fair values are determined based on quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have significant impact on the fair value of the instrument (Level 3):

The Group measures fair values using the following hierarchy of method:

- **Level 1:** This category includes financial instruments whose fair value is determined directly by reference to published quotes in an active market. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Bank's portfolio.
- **Level 2:** This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

	Level 1		**Level 2**		**Level 3**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Financial Assets						
Financial assets at fair value through profit or loss	2,589	3,564	573	1,765	-	-
Available-for-sale financial assets	64,139	73,687	-	-	-	-
Total	**66,728**	**77,251**	**573**	**1,765**	**-**	**-**
Financial Liabilities						
Financial liabilities at fair value through profit or loss	-	-	1,338	708	-	-
Total	**-**	**-**	**1,338**	**708**	**-**	**-**

(*) No fair value disclosures are provided for equities of 160 TL that are measured at cost because their value cannot be measured reliably.

No securities were transferred from Level 1 to Level 2 of the fair value hierarchy in 2015.

31. AFTER THE REPOTING PERIOD

None.