



**TÜRKİYE SİNAİ KALKINMA BANKASI
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

Consolidated Financial Statements
As at and for the Year Ended
31 December 2015
With Independent Auditors' Report

28 April 2016

This report contains 2 pages of independent auditors' report on consolidated financial statement and 97 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Sınai Kalkınma Bankası 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 and 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

Erdal Tıkmak
Partner

28 April 2016
Istanbul, Turkey

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

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

ASSETS	Notes	31 December 2015	31 December 2014
Cash on hand	6	21	14
Balances with central bank	7	43,863	34,612
Reserve deposits at central bank	7	767,239	473,168
Loans and advances to banks	8	751,545	503,981
Interbank money market placements	6	1,080,274	104,913
Funds lent under repurchase agreements	6	450	293
Financial assets at fair value through profit or loss		209,571	95,417
- Trading assets	9	39,777	20,543
- Derivative assets	33	169,794	74,874
Loans and advances to customers	10	13,651,492	10,852,263
Investment securities	11	3,849,323	3,520,426
- Available for sale investment securities		2,976,721	3,520,426
- Held to maturity investment securities		872,602	-
Derivatives used for hedging purposes	33	4,093	-
Investments in equity-accounted investees	12	291,988	261,745
Goodwill	13	383	383
Property and equipment	14	207,027	26,619
Investment property	15	241,293	224,090
Intangible assets	16	1,052	1,169
Deferred tax assets	22	15,605	8,940
Other assets	17	257,772	93,259
Total assets		21,372,991	16,201,292

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

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

LIABILITIES	Notes	31 December 2015	31 December 2014
Obligations under repurchase agreements	18	2,168,035	2,162,494
Derivative liabilities	33	174,950	63,576
Funds borrowed	19	13,441,831	10,151,582
Debts securities issued	20	2,037,571	813,824
Payables to stock exchange money market	25	182,505	110,219
Current account of loan customers		30,677	39,081
Derivatives used for hedging purposes	33	5,799	-
Taxes and dues payable		6,555	5,332
Employee benefits	23	19,763	17,377
Corporate tax liability	22	41,871	32,390
Provisions		3,049	61
Other liabilities	21	120,282	88,689
Subordinated loan	24	145,836	116,065
Total liabilities		18,378,724	13,600,690
EQUITY			
Share capital			
Nominal paid in capital	26	1,750,000	1,500,000
Inflation adjustment to capital	26	13,563	13,563
Total capital		1,763,563	1,513,563
Share premium		428	413
Legal reserves		195,538	176,231
Fair value reserve		(23,747)	118,002
Revaluation reserve		173,518	-
Retained earnings		819,477	724,940
Total equity attributable to equity holders of the Bank		2,928,777	2,533,149
Non-controlling interests	26	65,490	67,453
Total equity		2,994,267	2,600,602
Total liabilities and equity		21,372,991	16,201,292
Commitments and contingencies	32	27,055,434	14,361,130

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	1 January – 31 December 2015	1 January – 31 December 2014
Interest income			
Interest income on loans and advances to customers		669,151	505,160
Interest on money market placements		95,693	14,320
Interest income on securities		318,736	283,930
Interest income on loans and advances to banks		13,614	16,219
Interest income on reserve deposit at central bank		1,235	53
Interest income on finance leases		1	65
Other interest income		295	171
Total interest income		1,098,725	819,918
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(212,466)	(160,230)
Interest expense on funds borrowed and subordinated loan		(194,642)	(122,986)
Interest expense on debt securities issued		(92,869)	(8,025)
Other interest expenses		(206)	(54)
Total interest expense		(500,183)	(291,295)
Net interest income		598,542	528,623
Fee and commission income		34,397	33,631
Fee and commission expense		(4,850)	(4,131)
Net fee and commission income		29,547	29,500
Securities trading income / (losses), net		3,567	(714)
Derivative trading losses, net		(122,013)	(46,889)
Foreign exchange gains, net		124,226	88,841
Net trading income		5,780	41,238
Net impairment loss on financial assets		(18,183)	(4,776)
Operating income after impairment losses		615,686	594,585
Other operating income	27	28,153	25,052
Other operating expenses	29	(141,484)	(161,730)
Dividend income	28	10,175	9,734
Share of profit of equity-accounted investees	12	35,280	27,136
Profit before income tax		547,810	494,777
Income tax expense	22	(102,936)	(98,310)
Profit for the year		444,874	396,467

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	1 January – 31 December 2015	1 January – 31 December 2014
Profit for the year		444,874	396,467
Items that will never be reclassified to profit or loss:			
Remeasurement of employee termination benefits		(402)	(696)
Related tax		76	133
		(326)	(563)
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		(177,846)	145,274
Revaluation of tangible assets		175,119	-
Net change in fair value of available-for-sale financial assets transferred to profit or loss		7,565	(136)
Equity-accounted investees - share of OCI		(5,963)	(2,969)
Related tax		32,884	(28,070)
Other comprehensive income for the year, net of tax		31,433	113,536
Total comprehensive income for the year		476,307	510,003
Profit attributable to:			
Equity holders of the Bank		441,515	395,902
Non-controlling interests	26	3,359	565
Profit for the year		444,874	396,467
Total comprehensive income attributable to:			
Equity holders of the Bank		472,978	509,301
Non-controlling interests	26	3,329	702
Total comprehensive income for the year		476,307	510,003
Earnings per share			
Basic earnings per share (in full Kurus)	35	0.2542	0.2266

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

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

		Attributable to equity holders of the Bank						
	Notes	Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Retained earnings	Total
		1,300,000	13,563	388	158,911	4,040	614,984	2,091,886
Balance at 1 January 2014								2,167,371
Total comprehensive income for the year								
Profit		-	-	-	-	-	395,902	395,902
Other comprehensive income								565
Remeasurement of defined benefit liability		-	-	-	-	-	(696)	(696)
Net change in fair value of available for sale financial assets		-	-	-	-	145,274	-	145,274
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	(136)	-	(136)
Equity-accounted investees - share of OCI		-	-	-	-	(3,106)	-	(3,106)
Tax on other comprehensive income		-	-	-	-	(28,070)	133	(27,937)
Total other comprehensive income		-	-	-	-	113,962	(563)	113,399
Total comprehensive income for the year		-	-	-	-	113,962	395,339	509,301
Balance at 31 December 2014		1,500,000	13,563	413	176,231	118,002	724,940	2,600,602
Transactions with owners of the Company								
"Contributions and distributions"								
Capital increase	26	200,000	-	-	-	-	(200,000)	-
Dividend distribution		-	-	-	-	-	(72,581)	(72,581)
Transfer to legal reserves		-	-	-	17,319	-	(17,319)	-
Changes in ownership interests								
Acquisition of non-controlling interests without a change in control		-	-	25	1	-	4,517	(8,734)
Total transactions with the owners of the Company		200,000	-	25	17,320	-	(285,383)	(76,772)
Balance at 31 December 2014	26	1,500,000	13,563	413	176,231	118,002	724,940	2,600,602

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	Attributable to equity holders of the Bank							Non-controlling interests	Total Equity
		Share Capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Revaluation reserve	Retained earnings		
Balance at 1 January 2015		1,500,000	13,563	413	176,231	118,002	-	724,940	67,453	2,600,602
Total comprehensive income for the year										
Profit		-	-	-	-	-	-	-	-	-
Other comprehensive income										
Remeasurement of defined benefit liability		-	-	-	-	-	-	441,515	3,359	444,874
Net change in fair value of available for sale financial assets		-	-	-	-	-	-	(402)	-	(402)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	(177,836)	-	-	(10)	(177,846)
Revaluation of tangible assets		-	-	-	-	7,565	-	-	-	7,565
Translation reserve		-	-	-	-	-	175,119	-	-	175,119
Equity-accounted investees - share of OCI		-	-	-	-	(5,963)	-	-	-	(5,963)
Tax on other comprehensive income		-	-	-	-	34,485	(1,601)	76	-	32,960
Total other comprehensive income						(141,749)	173,518	(326)	(10)	31,433
Total comprehensive income for the year						(141,749)	173,518	441,189	3,349	476,307
Transactions with owners of the Company										
"Contributions and distributions"										
Capital increase	26	250,000	-	-	-	-	-	(250,000)	-	-
Dividend distribution		-	-	-	-	-	-	(80,262)	-	(80,262)
Transfer to legal reserves		-	-	-	19,305	-	-	(19,305)	-	-
Changes in ownership interests										
Acquisition of non-controlling interests without a change in control		-	-	15	2	-	-	2,915	(5,312)	(2,380)
Total transactions with the owners of the Company		250,000		15	19,307			(346,652)	(5,312)	(82,642)
Balance at 31 December 2015	26	1,750,000	13,563	428	195,538	(23,747)	173,518	819,477	65,490	2,994,267

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

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ 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	31 December 2015	31 December 2014 (Restated*)
Cash flows from operating activities:			
Interests and commissions received		1,208,173	595,036
Other operating activities, net		543,347	169,667
Cash payments to employees and suppliers		(104,085)	(95,450)
Interests and commissions paid		(448,911)	(270,591)
Operating profit before changes in operating assets / liabilities		1,198,524	398,662
(Increase)/decrease in operating assets:			
Loans and advances to customers		(1,330,150)	(1,843,473)
Balances with central Banks		(293,520)	(206,390)
Financial assets at fair value through profit or loss		(15,725)	(5,101)
Other assets		(324,925)	19,858
(Increase)/decrease in operating liabilities:			
Funds borrowed		1,644,085	1,017,382
Obligations under repurchase agreements and money market fundings		77,946	416,880
Other liabilities		142,488	71,464
Net cash outflows from operating activities before taxes and duties paid		1,098,723	(130,718)
Income taxes and other duties paid		(70,206)	(148,900)
Net cash outflows from operating activities		1,028,517	(279,618)
Cash flows from investing activities:			
Cash paid for purchase of investment securities		(1,550,264)	(1,460,772)
Cash obtained from sale of investment securities		859,363	1,145,838
Dividends received		10,175	9,735
Proceeds from sale of tangible assets		17,365	6,138
Purchase of tangible assets		(34,218)	(21,122)
Other		(2,169)	(473)
Net cash inflows/ outflows from investing activities		(699,748)	(320,656)
Cash flows from financing activities:			
Cash obtained from funds borrowed and securities issued		925,747	806,153
Dividends paid		(80,262)	(72,581)
Net cash inflows from financing activities		845,485	733,572
Effect of exchange rate changes		51,689	11,407
Net increase in cash and cash equivalents		1,225,943	144,705
Cash and cash equivalents at 1 January		642,972	498,267
Cash and cash equivalents at 31 December	6	1,868,915	642,972

(*) See note 3.

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

Notes to the consolidated financial statements**Page**

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TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

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

1. REPORTING ENTITY

Türkiye Sınai Kalkınma Bankası AŞ (“TSKB” or the “Bank”) was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ (“SYB”), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (“BRSA”) decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 81 Fındıklı, İstanbul, Turkey.

The Bank and its subsidiaries are referred to as the “Group”.

TSKB started its activities in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group and T. Vakıflar Bankası T.A.O. with the percentages of 50.33% and 8.38%, respectively (31 December 2014: 50.00% and 8.38%, respectively). The Bank’s shares are traded in Borsa İstanbul (“BİST”).

The Bank has opened two branches in İzmir and Ankara in April 2006 to enhance marketing and valuation operations.

Information about the consolidated subsidiaries and associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with İstanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company’s objective is to perform capital market operations specified in the company’s main contract in accordance with the Capital Markets Board (“CMB”) and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006. The share of the Bank in the Company is 95.78%.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company’s shares are traded in BİST since April 2010. The share of the Bank in the Company is 59.00%.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

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

1. REPORTING ENTITY (continued)

Information about the consolidated subsidiaries and associates (continued)

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The company's headquarters is located at Istanbul/Turkey. The share of the Bank in the Company is 28.56%.

İş Faktoring AŞ

İş Faktoring AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993 and is conducting its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company's main operation is domestic and export factoring transactions. The company's headquarters is located at Istanbul/Turkey. The share of the Bank in the Company is 21.75%.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ as a private equity company, is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The company's headquarters is located at Istanbul/Turkey. The share of the Bank of the Company is 16.67%.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The accompanying consolidated financial statements were authorized for issue by the Bank management on 28 April 2016.

2.2. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property and property and equipment are measured at fair value.

The methods used to measure fair values are discussed further in Note 3.8, 3.15, 3.16.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

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

2. BASIS OF PREPARATION (continued)

2.2. Basis of Measurement (continued)

International Accounting Standard (“IAS”) 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilization, decrease in the interest rates and the appreciation of TL against the US Dollars (“USD”), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

2.3 Functional and Presentation Currency

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

2.4 Use of Estimates and Judgments

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

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

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

Financial asset and liability classification

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

- In classifying financial assets or liabilities as “trading”, the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2015

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

2. BASIS OF PREPARATION (Continued)

2.4 Use of Estimates and Judgments (Continued)

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 Note 3.8.

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

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

The Group's accounting policy on fair value measurements is discussed in Note 3.8 – *measurement*.

Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

Reserve for employee severance payments

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.23 are reviewed regularly.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The Group has changed its cash flow method from indirect to direct and cash flow statement for the year ended 31 December 2014 has been restated based on this new method. Net cash outflows from operating activities are changed to TL (279,618) from TL (1,075,755), net cash outflows from investing activities changed to TL (320,656) from TL (541,915) and net cash inflows from financing activities are changed to TL 733,572 from TL 1,750,954.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination. The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group's holdings used in consolidation:

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.82
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	72.12

The consolidated financial statements of the companies below are accounted for under the equity method:

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
İş Finansal Kiralama AŞ	Leasing	29.46
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	17.06
İş Faktoring AŞ	Factoring	44.09

The following equity investments have been accounted at cost; they have not been consolidated or accounted under the equity method: their consolidation would not have a material effect on income for the year or on equity.

<u>Entity</u>	<u>Sector</u>	<u>The Group's Share (%)</u>
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
Terme Metal Sanayi ve Ticaret AŞ	Manufacturing	18.72
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	Warehousing	20.10
Sürdürülebilir Danışmanlık AŞ	Consultancy	97.07

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Investments in Associates (Equity-accounted Investees)

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As at the reporting date, the Group has investments in associates with a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Associates (Equity-accounted Investees) (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized directly in equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

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 accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

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

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

	2015		2014	
	Period End	Average	Period End	Average
1 US Dollar	2.8950	2.8890	2.3050	2.2708
1 Euro	3.1642	3.1476	2.8013	2.7970

3.3 Interest

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

The calculation of the effective interest rate includes all transaction cost and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss,
- coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Fees and commissions

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.5 Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

3.6 Dividends

Dividend income is recognized when the right to receive the income is established.

3.7 Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Income tax (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Turkish tax legislation does not permit a parent company and its subsidiaries 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.

Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax position and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.8 Financial assets and financial liabilities

Recognition and initial measurement

The Group initially recognizes loans and advances, funds borrowed, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

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

- loans and receivables;
- available for sale; or
- at fair value through profit or loss and within the category as held for trading.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and held to maturity investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held to maturity investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

The Group writes off loans and advances when they are determined to be uncollectible (Note 9). Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss. Any subsequent reversal of impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

3.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. These include investments and derivative contracts that are not designated as effective hedging instruments. These derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the statement of financial position at cost and subsequently are measured at their fair value.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

3.11 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

Loans and advances classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method.

3.13 Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

As of the reporting date, the Group has no held-to-maturity investments.

Fair value through profit or loss

The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss as described in designation at fair value through profit or loss.

Available-for-sale financial assets

Available-for-sale investments are those non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Investment securities (continued)

Available-for-sale financial assets

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group become entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would meet the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity. The Group did not reclassify any available-for-sale asset subsequent to their initial recognition.

3.14 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

3.15 Property and equipment

Recognition and measurement

Items of property and equipment except land and building are measured at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

As of the third quarter of the current year, the Group changed its accounting policy and adopted revaluation method for land and buildings under scope of IAS 16. The useful life of real estates are mentioned in expertise reports. In case of the cost of tangible assets are over the fair value of the assets, within the framework of “Impairment of Assets” (IAS 36), the value of the asset is reduced to its “fair value” and the impairment is recognised in expense accounts. The positive difference between the net book value of real estate property and the expertise values which are determined by the independent expert companies are recognised under shareholders’ equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Property and equipment (continued)

Recognition and measurement

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

Subsequent costs

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

Depreciation

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

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

Buildings	50 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment	4 years
Software	3 years
Leasehold and Leasehold Improvements	lease term or 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise. Fair value of investment properties are determined by using market value, discounted cash flow projections approach and cost model.

3.17 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.18 Intangible assets

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortisation and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Leases

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

The Group as lessor

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. Lease receivables are classified under loans in the accompanying statement of financial position.

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.

The Group as lessee

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 statement of financial position 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 directly 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

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

3.21 Funds borrowed, debt securities issued and subordinated liabilities

Debt securities issued and subordinated liabilities are the Group's main sources of debt funding, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

3.22 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.24 Employee benefits

Defined benefit plans

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

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

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The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

Paragraph 1 of the provisional Article 23 of the Banking Act (“Banking Act”) No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act.

Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court’s decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007. After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Employee benefits (continued)

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9,80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28277 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No:2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No:28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of the Council of Ministers published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

However the Main Opposition Party has appealed to the Constitutional Court on 19 June 2008 for cancellation of some articles, including the first paragraph of 20. Temporary article of the Law, and requested them to be ineffective until the case of revocatory action is finalized. The application of the Main Opposition Party was rejected by the Higher Court with the resolution dated 30 March 2011.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 2015 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 18 January 2016. There is no need for technical or actual deficit to book provision as of 31 December 2015.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after, in the context expressed above, would be financed by the assets of the Pension Fund and would not cause any extra burden on the Bank.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24 Employee benefits (continued)

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 23) in the calculation of the reserve for employee severance indemnity.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.25 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.26 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

3.27 Segment reporting

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.28 Standards issued but not yet effective and not early adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early 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.

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.28 Standards issued but not yet effective and not early adopted (continued)

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.

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).

3.29 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

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4. FINANCIAL RISK MANAGEMENT

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

- credit risk,
- liquidity risk,
- market risk,
- operational risk.

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

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Bank's general management and appropriate sub-committees.

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Group places strong emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets.

The credit portfolio is monitored according to the overall composition and quality of the credit portfolio considering factors such as loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally. The Bank has also an internal credit risk rating system in managing the credit risk, which takes into account various financial and nonfinancial indicators for the evaluation of corporate and also guarantees.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in line with Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves". The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes sufficient collateral for the loans and other receivables extended. The collaterals obtained consist of personal suretyship, mortgage, cash blockage and client checks.

The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counterparties.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole.

If exposed to a significant degree of credit risk, the Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts.

The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications.

The Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern.

The international operations are made with many correspondent banks in various countries. The counterparty limits are set with operations made with the banks.

The Bank being an active participant in international banking market is not exposed to a significant degree of credit risk when evaluated with the financial operations of other financial institutions.

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The credit portfolio is also monitored according to various criteria including industry sector, geographical area and risk categories. Credit risk by types of borrowers is as follows:

	Loans and Advances to Customers		Marketable Securities		Loans and Advances to Banks and Others	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Loans according to borrowers						
Private Sector	13,129,969	10,507,882	288,702	434,455	--	--
Public Sector	47,848	5,350	3,538,068	3,036,728	-	-
Banks	473,675	339,031	19,785	29,051	1,832,269	609,187
Share Certificates	-	-	42,545	40,735	-	-
Total	13,651,492	10,852,263	3,889,100	3,540,969	1,832,269	609,187

Loans according to
geographical

Domestic	13,636,972	10,798,979	3,878,980	3,517,070	1,794,761	603,476
European Union	-	-	10,120	22,877	3,514	3,857
OECD Countries (*)	-	-	-	-	1,164	1,091
USA, Canada	-	-	-	-	3,782	763
Other Countries	14,520	53,284	-	-	29,048	-
Total	13,651,492	10,852,263	3,889,100	3,540,969	1,832,269	609,187

(*) OECD countries except EU countries, USA and Canada

The geographical concentration of assets, liabilities and other credit related commitments are as follows:

31 December 2015	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	21,089,297	99	8,198,593	39	27,055,434	100
Euro Zone	164,281	1	7,104,712	33	-	-
Offshore	-	-	2	-	-	-
USA, Canada	7,680	-	5,002,474	23	-	-
OECD Countries (*)	4,116	-	66,484	-	-	-
Other Countries	107,617	-	1,000,726	5	-	-
	21,372,991		21,372,991		27,055,434	

(*) OECD countries except EU countries, USA and Canada

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2014	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	16,047,986	99	6,224,307	39	14,361,130	100
Euro Zone	88,797	1	5,158,236	32	-	-
Offshore	1,022	-	1	-	-	-
USA, Canada	4,452	-	4,283,488	26	-	-
OECD Countries (*)	5,590	-	-	-	-	-
Other Countries	53,445	-	535,260	3	-	-
	<u>16,201,292</u>		<u>16,201,292</u>		<u>14,361,130</u>	

(*) OECD countries except EU countries, USA and Canada

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

	31 December 2015	31 December 2014
<u>Gross maximum exposure</u>		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	1,562,668	1,011,775
Interbank money market placements	1,080,274	104,913
Funds lent under repurchase agreements	450	293
Trading assets	39,777	20,543
Derivative financial assets held for trading	169,794	74,874
Derivatives used for hedging purposes	4,093	-
Loans and advances to customers	13,651,492	10,852,263
Held to maturity investment securities	872,602	-
Available-for-sale investment securities	2,976,721	3,520,426
Total	<u>20,357,871</u>	<u>15,585,087</u>

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of loans and advances as at 31 December 2015 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	751,545	-	-	-	751,545
Loans and advances to customers	13,617,760	76,158	(8,729)	(33,697)	13,651,492
Corporate lending	11,380,224	23,196	(5,257)	(28,060)	11,370,103
Small business lending	2,168,539	51,350	(2,273)	(5,463)	2,212,153
Other	68,997	1,612	(1,199)	(174)	69,236
Total	14,369,305	76,158	(8,729)	(33,697)	14,403,037

Credit quality per class of loans and advances as at 31 December 2014 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	503,981	-	-	-	503,981
Loans and advances to customers	10,810,256	75,040	(6,895)	(26,138)	10,852,263
Corporate lending	9,006,463	26,365	(4,963)	(21,690)	9,006,175
Small business lending	1,731,353	47,177	(843)	(4,271)	1,773,416
Other	72,440	1,498	(1,089)	(177)	72,672
Total	11,314,237	75,040	(6,895)	(26,138)	11,356,244

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2015	31 December 2014
Loans and advances to customers		
Corporate lending	17,651	14,663
Small business lending	145,326	157,763
Total	162,977	172,426

Credit risk is evaluated according to the Bank's internal rating. Non-financial service customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial service customers, which are rated by external rating firms, are matched to the Bank's internal ratings. The loans rated according to the possibility of being in default are classified from the highest grade (top grade) to the lowest (below average) as below; at the bottom of the table there are credits in default (impaired) according to rating model.

	31 December 2015	31 December 2014
<u>Basic Loan Quality Categories</u>		
Top Grade	688,490	480,487
High Grade	3,227,384	2,245,543
Average Grade	6,760,088	6,175,049
Below Average Grade	4,463,785	2,899,642
Impaired	62,184	18,438
Total	15,201,931	11,819,159

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

As at the reporting date, the total of the Group's cash and non-cash loans and financial lease receivables (gross amount including the non-performing loans, excluding the specific and portfolio provisions) is TL 15,476,582 and TL 274,651 of these customers have not been rated (31 December 2014: TL 12,338,365 and TL 519,206).

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

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

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. For the purposes of monitoring and assessing the liquidity position of the Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year was as follows:

	31 December 2015 %	31 December 2014 %
Average during the period	163.89	131.29

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2015 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	21	21
Balances with central bank	-	-	-	43,863	43,863
Reserve deposits at central bank	565,428	-	-	201,811	767,239
Loans and advances to banks	734,646	-	-	16,899	751,545
Interbank money market placements	1,080,274	-	-	-	1,080,274
Funds lent under securities resale agreements	450	-	-	-	450
Trading assets	-	3,971	35,425	381	39,777
Derivative assets	29,754	40,463	99,577	-	169,794
Derivative assets used for hedging purposes	-	-	4,093	-	4,093
Loans and advances to customers	1,077,364	2,634,961	9,870,170	68,997	13,651,492
Available-for-sale investment securities	94,963	449,359	2,389,626	42,773	2,976,721
Held-to-maturity investment securities	-	-	872,602	-	872,602
Total	3,582,879	3,128,754	13,271,493	374,745	20,357,871
LIABILITIES					
Obligations under repurchase agreements	2,168,035	-	-	-	2,168,035
Derivative liabilities	38,052	48,927	87,971	-	174,950
Derivative liabilities used for hedging purposes	357	5,442	-	-	5,799
Funds borrowed and subordinated loan	687,315	1,803,151	11,097,201	-	13,587,667
Debt securities issued	-	-	2,037,571	-	2,037,571
Payables to stock exchange money market	182,505	-	-	-	182,505
Current account of loan customers	30,677	-	-	-	30,677
Taxes and dues payable	6,555	-	-	-	6,555
Corporate tax liability	41,871	-	-	-	41,871
Employee benefits	7,800	-	-	11,963	19,763
Total	3,163,167	1,857,520	13,222,743	11,963	18,255,393

The maturity analysis for certain asset and liability items is estimated.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2014 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	14	14
Balances with central bank	-	-	-	34,612	34,612
Reserve deposits at central bank	473,168	-	-	-	473,168
Loans and advances to banks	489,522	-	-	14,459	503,981
Interbank money market placements	104,913	-	-	-	104,913
Funds lent under securities resale agreements	293	-	-	-	293
Trading assets	1,512	7,828	8,511	2,692	20,543
Derivative assets	18,129	23,686	33,059	-	74,874
Loans and advances to customers	1,012,148	1,747,334	8,020,341	72,440	10,852,263
Available-for-sale investment securities	220,505	265,668	2,995,676	38,577	3,520,426
Total	2,320,190	2,044,516	11,057,587	162,794	15,585,087
LIABILITIES					
Obligations under repurchase agreements	2,162,494	-	-	-	2,162,494
Derivative liabilities	11,907	21,356	30,313	-	63,576
Funds borrowed and subordinated loan	683,795	960,942	8,622,910	-	10,267,647
Debt securities issued	-	-	813,824	-	813,824
Payables to stock exchange money market	110,219	-	-	-	110,219
Current account of loan customers	39,081	-	-	-	39,081
Taxes and dues payable	5,332	-	-	-	5,332
Corporate tax liability	32,390	-	-	-	32,390
Employee benefits	7,902	-	-	9,475	17,377
Total	3,053,120	982,298	9,467,047	9,475	13,511,940

The maturity analysis for certain asset and liability items is estimated.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

As at 31 December 2015	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
Payables to stock exchange money market	182,819	-	-	-	-	(314)	182,505
Funds borrowed and subordinated loan	634,926	186,921	1,908,283	5,661,759	6,225,978	(1,030,202)	13,587,665
Obligations under repurchase agreements	2,169,211	1,070	-	-	-	(2,246)	2,168,035
Debt securities issued	-	-	106,393	2,371,638	-	(440,460)	2,037,571
Total	2,986,956	187,991	2,014,676	8,033,397	6,225,978	(1,473,222)	17,975,776

As at 31 December 2014	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
Payables to stock exchange money market	110,569	-	-	-	-	(350)	110,219
Funds borrowed and subordinated loan	446,733	262,726	1,030,870	4,331,378	4,855,915	(659,975)	10,267,647
Obligations under repurchase agreements	2,072,951	90,822	-	-	-	(1,279)	2,162,494
Debt securities issued	-	-	43,724	980,201	-	(210,101)	813,824
Total	2,630,253	353,548	1,074,594	5,311,579	4,855,915	(871,705)	13,354,184

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

As at 31 December 2015	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	3,096,099	143,955	1,038,302	6,508,089	6,509,727	(22,553)	17,273,619
Forward contracts	88,494	12,924	37,447	268,223	-	-	407,088
Options	91,552	789,940	1,383,780	211,276	-	-	2,476,548
Other	-	-	89,210	-	-	-	89,210
Total	3,276,145	946,819	2,548,739	6,987,588	6,509,727	(22,553)	20,246,465

As at 31 December 2014	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	1,509,858	651,579	615,593	3,436,171	1,873,930	(62,545)	8,024,586
Forward contracts	5,761	43,985	-	-	-	-	49,746
Options	542,833	65,876	878,222	-	-	-	1,486,931
Total	2,058,452	761,440	1,493,815	3,436,171	1,873,930	(62,545)	9,561,263

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of financial assets and liabilities and other financial contracts will have an adverse financial impact. The primary risks within the Group's activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Group's statement of financial position is denominated in currencies other than the Turkish Lira (principally the US Dollar and Euro-zone currencies).

The Group's management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Group's treasury and financial assets trading divisions.

The Group benefits from VAR methods, stress testing and scenario analysis for measuring market risk. VAR calculations are made by choosing the 90, 95 and 99% confidence intervals, 1 day/10 days holding periods.

Interest Rate Risk

The Group is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2015:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	21	21
Balance with the Central Bank	-	-	-	43,863	43,863
Reserve deposits at central bank	565,428	-	-	201,811	767,239
Loans and advances to banks	734,646	-	-	16,899	751,545
Interbank money market placements	1,080,274	-	-	-	1,080,274
Funds lent under securities resale agreements	450	-	-	-	450
Trading assets	-	3,971	35,425	381	39,777
Derivative assets	59,339	91,114	19,341	-	169,794
Derivative assets used for hedging purposes	-	-	4,093	-	4,093
Loans and advances to customers	6,173,666	5,497,604	1,911,225	68,997	13,651,492
Available-for-sale investment securities	697,954	921,268	1,314,726	42,773	2,976,721
Held-to-maturity investments securities	677,065	38,129	157,408	-	872,602
Total	9,988,822	6,552,086	3,442,218	374,745	20,357,871
LIABILITIES					
Obligations under repurchase agreements	2,168,035	-	-	-	2,168,035
Derivative liabilities	66,750	80,986	27,214	-	174,950
Derivative liabilities used for hedging purposes	357	5,442	-	-	5,799
Funds borrowed and subordinated loan	8,234,150	2,712,656	2,640,861	-	13,587,667
Debt securities issued	-	-	2,037,571	-	2,037,571
Payables to stock exchange money market	182,505	-	-	-	182,505
Current account of loan customers	30,677	-	-	-	30,677
Taxes and dues payable	-	-	-	41,871	41,871
Corporate tax liability	-	-	-	6,555	6,555
Employee benefits	-	-	-	19,763	19,763
Total	10,682,474	2,799,084	4,705,646	68,189	18,255,393

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2014:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	14	14
Balance with the Central Bank	-	-	-	34,612	34,612
Reserve deposits at central bank	-	-	-	473,168	473,168
Loans and advances to banks	489,522	-	-	14,459	503,981
Interbank money market placements	104,913	-	-	-	104,913
Funds lent under securities resale agreements	293	-	-	-	293
Trading assets	9,722	6,066	2,063	2,692	20,543
Derivative assets	21,548	53,326	-	-	74,874
Loans and advances to customers	5,512,430	3,906,048	1,361,345	72,440	10,852,263
Available-for-sale investment securities	1,435,131	918,699	1,128,019	38,577	3,520,426
Total	7,573,559	4,884,139	2,491,427	635,962	15,585,087
LIABILITIES					
Obligations under repurchase agreements	2,162,494	-	-	-	2,162,494
Derivative liabilities	17,704	43,289	2,583	-	63,576
Funds borrowed and subordinated loan	6,631,680	2,250,201	1,385,766	-	10,267,647
Debt securities issued	-	-	813,824	-	813,824
Payables to stock exchange money market	110,219	-	-	-	110,219
Current account of loan customers	39,081	-	-	-	39,081
Taxes and dues payable	-	-	-	5,332	5,332
Corporate tax liability	-	-	-	32,390	32,390
Employee benefits	-	-	-	17,377	17,377
Total	8,961,178	2,293,490	2,202,173	55,099	13,511,940

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Sensitivity (continued)

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

	TL %	Euro %	US Dollar %
Assets			
Cash & Balances with Central Bank	2.42	-	0.27
Banks	13.64	1.26	0.98
Interbank money market placements	12.93	-	-
Funds lent under repurchase agreements	10.39	-	-
Loans and advances to customers	11.98	3.54	4.70
Available-for-sale investment securities	10.38	5.62	4.87
Held-to-maturity investment securities	10.04	-	6.00
Liabilities			
Obligations under repurchase agreements	10.26	0.55	0.50
Funds borrowed and subordinated loan	10.84	0.89	1.60
Payables to stock exchange money market	13.56	-	-
Marketable securities issued	-	-	5.24
Current account of loan customers	6.00	0.50	0.50

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

	TL %	Euro %	US Dollar %
Assets			
Cash & Balances with central bank	1.44	-	-
Banks	11.08	2.83	0.44
Interbank money market placements	10.21	-	-
Funds lent under repurchase agreements	8.55	-	-
Loans and advances to customers	10.60	3.83	4.39
Lease receivables	-	-	-
Available-for-sale investment securities	9.72	5.60	5.88
Liabilities			
Obligations under repurchase agreements	9.95	0.50	0.68
Funds borrowed and subordinated loan	3.31	1.16	1.15
Payables to stock exchange money market	10.49	-	-
Current account of loan customers	6.00	0.50	0.50

The Group's interest rate sensitivity is calculated according to the market risk related to assets and liabilities. In this context, at the reporting date, if interest rates had been 100 bp higher for TL and foreign currency and all other variables were held constant, the net increase on the profit and shareholders' equity would have been TL 6,334 and if interest rates had been 100 bp lower for TL and foreign currencies, the net decrease on the profit and shareholders' equity would have been TL 12,759.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Other Price Risks

Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to stock price risks at the reporting date.

The Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.

As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.

The Group classifies its equity investments both as held for trading and available for sale investments. Therefore, the net profit/loss is not affected as long as the Group does not sell its equity investments classified as available for sale investments. According to the analysis results under these assumptions; marketable securities value increase fund will increase or decrease by TL 1,705 (31 December 2014: TL 2,322), for marketable securities classified as financial assets held for trading there will not be any affect on the profit/loss (31 December 2014: TL 478 marketable securities value increase fund increase/decrease).

Unless the equity share investments classified as assets available for sale are disposed of or impaired, the net profit/loss will not be affected.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2015:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	3,384	53	-	3,437
Reserve deposits at Central Bank	153,080	524,949	89,210	767,239
Loans and advances to banks	283,264	393,161	2,503	678,928
Derivative financial instruments	16,969	24,256	5,311	46,536
Loans and advances to customers	4,902,660	7,661,022	-	12,563,682
Available-for-sale investment securities	34,650	813,169	-	847,819
Held-To-Maturity Investments	-	157,408	-	157,408
Derivative Financial Assets for Hedging Purposes	-	4,093	-	4,093
Other assets	24	180,943	-	180,967
Total Assets	5,394,031	9,759,054	97,024	15,250,109
Liabilities				
Obligations under repurchase agreements	21,781	22,767	-	44,548
Derivative financial liabilities held for trading	11,843	10,462	-	22,305
Funds borrowed and subordinated loan	5,688,200	7,643,855	-	13,332,055
Marketable Securities Issued	-	2,037,571	-	2,037,571
Current account of loan customers	13,240	15,747	-	28,987
Derivative Financial Liabilities for Hedging Purposes	-	5,799	-	5,799
Other liabilities	8,546	20,990	5,612	35,148
Total Liabilities	5,743,610	9,757,191	5,612	15,506,413
Net Statement of Financial Position	(349,579)	1,863	91,412	(256,304)
Off Balance Sheet Position				
Derivatives to sell	957,928	1,807,942	122,609	2,888,479
Derivatives to buy	(723,852)	(1,869,707)	(211,819)	(2,805,378)
	234,076	(61,765)	(89,210)	83,101
Net Position	(115,503)	(59,902)	2,202	(173,203)

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2014:

	Euro	US Dollar	Other Foreign Currencies	Total
Assets				
Cash and cash equivalents including Central Bank	2,942	42	-	2,984
Reserve deposits at Central Bank	69,053	329,438	74,677	473,168
Loans and advances to banks	193,697	99,671	2,396	295,764
Derivative financial instruments	4,835	10,471	-	15,306
Loans and advances to customers	3,584,589	6,201,710	-	9,786,299
Available-for-sale investment securities	28,547	530,441	-	558,988
Other assets	-	46,810	-	46,810
Total Assets	3,883,663	7,218,583	77,073	11,179,319
Liabilities				
Obligations under repurchase agreements	10,883	228,952	-	239,835
Derivative financial liabilities held for trading	4,323	7,961	-	12,284
Funds borrowed and subordinated loan	4,253,145	5,786,583	-	10,039,728
Marketable Securities Issued	-	813,824	-	813,824
Current account of loan customers	12,306	26,152	-	38,458
Other liabilities	4,221	15,011	1,200	20,432
Total Liabilities	4,284,878	6,878,483	1,200	11,164,561
Net Statement of Financial Position	(401,215)	340,100	75,873	14,758
Off Balance Sheet Position				
Derivatives to sell	746,084	699,758	63,998	1,509,840
Derivatives to buy	(434,625)	(1,043,824)	(138,675)	(1,617,124)
	311,459	(344,066)	(74,677)	(107,284)
Net Position	(89,756)	(3,966)	1,196	(92,526)

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency sensitivity

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Group's top management.

Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

The Group is mostly exposed to Euro and US Dollar currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and other currencies.

	% Increase	Effect on profit or loss(*)		Effect on equity(**)	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
US Dollar	10%	(6,769)	(5,248)	779	4,851
Euro	10%	(11,755)	(9,217)	205	241
Other	10%	220	120	-	-

	% Decrease	Effect on profit or loss(*)		Effect on equity(**)	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
US Dollar	10%	6,769	5,248	(779)	(4,851)
Euro	10%	11,755	9,217	(205)	(241)
Other	10%	(220)	(120)	-	-

(*) Values expressed are before the tax effect.

(**) Effect on equity does not include effect on profit/loss.

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

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4. FINANCIAL RISK MANAGEMENT (continued)

Capital management – regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.
- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, other comprehensive income, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, leasehold improvements on operational leases and other certain costs.
- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2015.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2015 and 2014 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

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

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4. FINANCIAL RISK MANAGEMENT (continued)

Capital management – regulatory capital (continued)

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis at 31 December 2015 and 2014 was as follows:

	2015	2014
Tier 1 capital	2,764,596	2,414,594
Tier 2 capital	144,043	140,810
Deductions from capital	(14,850)	(21,662)
Total regulatory capital	2,893,789	2,533,742
Risk-weighted assets	16,340,400	12,535,425
Value at market risk	733,925	402,050
Operational risk	1,016,000	882,564
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	16.00%	18.33%
Total Tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	15.28%	17.47%

As at 31 December 2015, the Bank's capital adequacy ratio on an unconsolidated basis is 14.86% (31 December 2014: 18.09%). The Group's consolidated capital adequacy ratio as at 31 December 2015 is 16.00% (31 December 2014: 18.33%).

Operational risk

Operational risk amount of the Group is measured with Basic Indicator Method referring to "Regulation on Measurement and Assessment of Capital Adequacy of Banks" According to this method; the calculation is performed parallel to the practice within the country, by multiplying 15% of the Group's last three years' average gross revenue with 12.5. The amount, calculated as TL 1,016,000 as at 31 December 2015 (31 December 2014: TL 882,564) represents the operational risk.

Yearly gross income, as presented on the income statement; is calculated with net interest income plus net fee and commission, dividend income except from subsidiaries and associates, trading profit/loss and other operational income minus profit/loss gain on sale of assets other than of trading accounts, extraordinary income, operational expense for support service from a bank and recoveries from insurance.

Fair values of financial instruments

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: 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.

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4. FINANCIAL RISK MANAGEMENT (continued)

Fair values of financial instruments (continued)

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The consolidated financial statements include holdings in unlisted shares which are measured at their historical costs as fair values could not be determined reliably.

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

31 December 2015	Total	Level 1	Level 2	Level 3
Financial Assets				
Trading assets	39,777	39,777	-	-
Government bonds and Treasury bills	30,777	30,777	-	-
Equity shares	2	2	-	-
Mutual funds	-	-	-	-
Debt securities issued by corporations	8,998	8,998	-	-
Derivative assets	169,794	-	169,794	-
Derivatives used for hedging purposes	4,093	-	4,093	-
Available for sale investment securities	2,976,721	1,890,450	1,063,795	22,476
Government bonds and Treasury bills	1,793,224	1,793,224	-	-
Eurobonds	831,327	-	831,327	-
Equity shares	42,773	10,176	10,121	22,476
Debt securities issued by corporations	309,397	87,050	222,347	-
Financial Liabilities				
Derivative liabilities	174,950	-	174,950	-
Derivatives used for hedging purposes	5,799	-	5,799	-
31 December 2014	Total	Level 1	Level 2	Level 3
Financial Assets				
Trading assets	20,543	18,480	2,063	-
Government bonds and Treasury bills	7,887	7,887	-	-
Equity shares	2,388	2,388	-	-
Mutual funds	304	304	-	-
Debt securities issued by corporations	9,964	7,901	2,063	-
Derivative assets	74,874	-	74,874	-
Available for sale investment securities	3,520,426	2,569,696	923,763	26,967
Government bonds and Treasury bills	2,491,044	2,491,044	-	-
Eurobonds	530,019	-	530,019	-
Equity shares	38,577	11,610	-	26,967
Debt securities issued by corporations	460,786	67,042	393,744	-
Financial Liabilities				
Derivative liabilities	63,576	-	63,576	-

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the year ended 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015	31 December 2014
Balance at the beginning of the year	26,967	43,338
Purchases	1,750	7,875
Redemption or sales	(6,458)	(24,246)
Closing balance	22,259	26,967

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4. FINANCIAL RISK MANAGEMENT (continued)

Fair values of financial instruments (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2015	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Assets					
Interbank money market placements	-	-	1,080,274	1,080,274	1,080,274
Funds lent under repurchase agreements	-	-	450	450	450
Loans and advances to customers	-	-	13,764,463	13,764,463	13,651,492
Liabilities					
Obligation under repurchase agreements	-	-	2,168,035	2,168,035	2,168,035
Funds borrowed and subordinated loans	-	-	177,999	177,999	177,999
Debt securities issued	2,049,116	-	-	2,049,116	2,037,571
Payables to stock exchange money market	-	-	182,505	182,505	182,505
Current account of loan customers	-	-	30,677	30,677	30,677

31 December 2014	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Assets					
Interbank money market placements	-	-	104,913	104,913	104,913
Funds lent under repurchase agreements	-	-	293	293	293
Loans and advances to customers	-	-	10,903,295	10,903,295	10,852,263
Liabilities					
Obligation under repurchase agreements	-	-	2,162,494	2,162,494	2,162,494
Funds borrowed and subordinated loans	-	-	10,267,647	10,267,647	10,267,677
Debt securities issued	832,727	-	-	832,727	813,824
Payables to stock exchange money market	-	-	110,219	110,219	110,219
Current account of loan customers	-	-	39,081	39,081	39,081

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables 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.

Funds borrowed

Management has estimated that the fair value of certain funds borrowed recorded at amortised cost that are of a contractual nature, are not materially different than their carrying values. Management believes that the carrying values of these particular financial liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair values of remaining financial assets and liabilities carried at amortised cost, including balances with Central banks and other banks and other financial institutions, other money market placements are considered to approximate their respective carrying values due to their short-term nature.

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Carrying amounts and fair values

	Carrying amount		Fair value				
	Loans and receivables	Investments, including derivatives	Total	Level 1	Level 2	Level 3	Total
Financial assets							
31 December 2015							
Due from banks (including central banks)	1,562,647	-	1,562,647	-	-	-	-
Financial assets at fair value through profit or loss:							
-Trading securities	-	39,777	39,777	39,777	-	-	39,777
-Derivative financial instruments	-	169,794	169,794	-	169,794	-	169,794
Derivatives used for hedging purposes		4,093	4,093	-	4,093	-	4,093
Loans and advances	13,651,492	-	13,651,492	-	-	-	-
Investment securities:							
-Available-for-sale investment securities	-	2,976,504	2,976,504	1,890,450	1,063,795	22,259	2,976,504
	15,214,139	3,190,168	18,404,307				

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Carrying amounts and fair values (continued)

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6. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash on hand – Turkish Lira (“TL”)	21	14
Total cash on hand	21	14

There is no blockage on the use of cash and cash equivalents as of 31 December 2015 (31 December 2014: None).

	31 December 2015	31 December 2014
Cash on hand	21	14
Loans and advances to banks (with original maturity of less than 3 months)	751,545	503,981
Unrestricted balances with the central bank	43,863	34,612
Funds lent under repurchase agreements	450	293
Interbank money market placements	1,080,274	104,913
Total cash and cash equivalents in the consolidated statement of financial position	1,876,153	643,813
Accruals on cash and cash equivalents	(7,238)	(841)
Total cash and cash equivalents in the consolidated statement of cash flows	1,868,915	642,972

7. BALANCES WITH CENTRAL BANK

a) Unrestricted balances with central bank

	31 December 2015	31 December 2014
Demand deposits – TL	40,426	31,628
Demand deposits – FC	3,437	2,984
Total	43,863	34,612

b) Reserve Deposits at central bank

	31 December 2015	31 December 2014
Foreign currency reserves	767,239	473,168
Total	767,239	473,168

As per the Communiqué numbered 2005/1 “Reserve Deposits” of Central Bank of Republic of Turkey (CBRT), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-days periods. In accordance with the related communiqué, no interest is paid for reserve requirements. The CBRT has started to pay interest to the Required Reserves held in Turkish Lira according to regulation released at 5 November 2014.

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7. BALANCES WITH CENTRAL BANK (continued)

b) Reserve Deposits at central bank (continued)

In accordance with the regulation issued at 27 January 2015, CBRT has began to collect monthly commissions over daily balances of Two Days Notice Deposit Accounts and Required Reserves held in the foreign currencies, to be valid from 1 February 2015. As of 5 May 2015, the CBRT has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 2 May 2015.

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of CBRT, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at CBRT based on rates mentioned below. Reserve rates prevailing at 31 December 2015 are presented in table below:

Reserve Rates for TL Liabilities

Original maturity	Required Reserve rate (%)
Other liabilities until 1 year maturity (1 year included)	11.5
Other liabilities until 3 year maturity (3 year included)	8
Other liabilities more than 3 year maturity	5

Reserve Rates for Foreign Currency Liabilities

Original maturity	Required Reserve rate (%) If the fund borrowed before 28 August 2015	Required Reserve rate (%) If the fund borrowed after 28 August 2015
Other liabilities until 1 year maturity (1 year included)	20	25
Other liabilities until 1-2 year maturity (2 year included)	14	20
Other liabilities until 2-3 year maturity (3 year included)	8	15
Other liabilities until 3-5 year maturity (5 year included)	7	7
Other liabilities more than 5 year maturity	6	5

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8. LOANS AND ADVANCES TO BANKS

	31 December 2015	31 December 2014
<u>Domestic Banks</u>		
Demand deposits – TL	465	22,914
Time deposits – TL	72,152	185,303
Demand deposits – FC	7,974	101,159
Time deposits – FC	633,446	188,894
	714,037	498,270
<u>Foreign Banks</u>		
Demand deposits – FC	8,460	5,711
Time deposits – FC	29,048	-
	37,508	5,711
Total	751,545	503,981

The time deposits above mature within 4 - 101 days and earn interest at rates ranging 11-13.75% for TL balances, 0.05-2.65% for foreign currency balances as at the reporting date (31 December 2014: Maturity: 1 - 91 days; interest rate 5.75-11.50% for TL balances and 0.35-3.35% for foreign currency).

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2015	31 December 2014
<u>Trading assets</u>		
Government bonds and treasury bills in TL	30,777	7,887
Debt securities issued by corporations	8,620	9,964
Equity shares	2	2,388
Mutual funds	378	304
Total	39,777	20,543

The above government bonds and treasury bills include securities given as collateral or blocked amounting to TL 7,878 and there is TL 293 of pledged securities under repurchase agreements as at the reporting date (31 December 2014: TL 7,878 and 293 respectively).

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10. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2015	31 December 2014
Short-term and current portion of long term loans	687,635	1,319,972
Long-term loans	12,945,266	9,546,886
Total performing loans	13,632,901	10,866,858
Non-performing loans	61,017	18,438
Total loans	13,693,918	10,885,296
Less: Specific reserve for impairment losses on loans	(8,729)	(6,895)
Less: Portfolio reserve for impairment losses on loans	(33,697)	(26,138)
Total loans	13,651,492	10,852,263

Movements in the reserve for impairment losses on loans for the year ended 2015 and 2014 are as follows:

	1 January – 31 December 2015	1 January – 31 December 2014
Specific reserve for cash loans:		
As at 1 January	6,895	5,466
Charge for the year	4,481	2,147
Reserve released and write offs	(2,647)	(718)
As at 31 December	8,729	6,895
Portfolio reserve for cash loans:		
As at 1 January	26,138	24,939
Charge for the year	7,559	1,199
As at 31 December	33,697	26,138
Total reserve for impairment losses on loans	42,426	33,033

Loans can be further analysed by customer groups as follows:

	31 December 2015	31 December 2014
Sector		
Corporate customers	11,403,420	9,032,828
Small business	2,219,889	1,778,530
Other	70,609	73,938
	13,693,918	10,885,296

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10. LOANS AND ADVANCES TO CUSTOMERS (continued)

	31 December 2015	31 December 2014
Currency		
Euro	4,209,221	2,856,034
US Dollar	7,053,725	5,619,887
Foreign currency indexed TL loans	1,336,511	1,330,851
Turkish Lira	1,094,461	1,078,524
Total	13,693,918	10,885,296

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid at the Turkish Lira equivalent of the currency to which they are indexed.

Performing loans, receivables and non-performing loans can be analysed by sector as follows:

Sector	31 December 2015		31 December 2014	
	Loans	Non-performing	Loans	Non-performing
Energy	5,756,680	37,878	4,602,935	-
Finance	1,792,409	-	1,543,816	-
Metal	712,942	-	639,681	48
Tourism	592,960	-	542,566	-
Chemical	465,141	-	368,851	-
Cement	317,287	59	257,884	59
Plastics	271,545	-	219,482	-
Construction	187,166	9,520	144,498	4,887
Textile	136,898	1,623	96,439	1,623
Motor Vehicles	164,031	-	63,255	-
Health Services	126,912	-	60,750	-
Food and Beverages	117,170	6,399	57,930	6,411
Education	123,847	-	48,763	-
Pulp and Paper	60,595	-	36,904	-
Rubber and Tires	13,152	-	14,279	-
Ceramics	41,909	-	4,032	-
Machinery Production	19,357	286	3,873	284
Farming	1,503	3,446	2,636	3,433
Lumber and Wood	23,983	-	-	-
Other	2,707,414	1,806	2,158,284	1,693
Total	13,632,901	61,017	10,866,858	18,438

TL 484,797 of the cash loans are extended to related parties. Related parties have TL 117,734 non-cash loan risk as at the reporting date (31 December 2014: TL 271,858 and TL 117,676; respectively).

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10. LOANS AND ADVANCES TO CUSTOMERS (continued)

Interest rates ranges for short term loans are as follows:

	31 December 2015	31 December 2014
Euro	0.50-2.50%	0.71-4.23%
US Dollar	2.80-4.90%	2.25-5.13%
TL	12.55-13.90%	7.29-11.83%

Interest rates ranges for long term loans are as follows:

	31 December 2015	31 December 2014
Euro	1.29-7.25%	1.88-7.43%
US Dollar	4.76-16.15%	2.04-7.60%
TL	1.79-8.08%	3.17-14.52%

The collaterals for the loans extended to the related parties are TL 66,161 as at the reporting date (31 December 2014: TL 52,691).

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10. LOANS AND ADVANCES TO CUSTOMERS (continued)

Set out below is an analysis of loans as at 31 December 2015 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	11,380,224	2,168,539	68,997	-	13,617,760
Past due not impaired	3,848	11,293	-	-	15,141
Individually impaired	19,348	40,057	1,612	-	61,017
Total gross	11,403,420	2,219,889	70,609	-	13,693,918
Less: reserve for individually impaired loans	(5,257)	(2,273)	(1,199)	-	(8,729)
Less: reserve for collectively impaired loans	-	-	-	(33,697)	(33,697)
Total reserve for impairment	(5,257)	(2,273)	(1,199)	(33,697)	(42,426)
Total, net	11,398,163	2,217,616	69,410	(33,697)	13,651,492

Set out below is an analysis of loans as at 31 December 2014 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	9,006,463	1,731,353	72,440	-	10,810,256
Past due not impaired	11,913	44,689	-	-	56,602
Individually impaired	14,452	2,488	1,498	-	18,438
Total gross	9,032,828	1,778,530	73,938	-	10,885,296
Less: reserve for individually impaired loans	(4,963)	(843)	(1,089)	-	(6,895)
Less: reserve for collectively impaired loans	-	-	-	(26,138)	(26,138)
Total reserve for impairment	(4,963)	(843)	(1,089)	(26,138)	(33,033)
Total, net	9,027,865	1,777,687	72,849	(26,138)	10,852,263

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10. LOANS AND ADVANCES TO CUSTOMERS (continued)

A reconciliation of the specific reserve for impairment losses by customer groups is as follows:

	Corporate	Small Business	Other	Total
At 1 January 2015	4,963	843	1,089	6,895
Charge for the year	2,281	1,495	705	4,481
Recoveries, releases and write offs	(1,987)	(65)	(595)	(2,647)
At 31 December 2015	5,257	2,273	1,199	8,729

	Corporate	Small Business	Other	Total
At 1 January 2014	3,950	797	719	5,466
Charge for the year	1,164	264	719	2,147
Recoveries, releases and write offs	(151)	(218)	(349)	(718)
At 31 December 2014	4,963	843	1,089	6,895

The fair value of collaterals that the Bank held for total of non-performing loans and advances to customers as at 31 December 2015 is TL 68,492 (31 December 2014: TL 15,797).

As at 31 December 2015, the aging analysis of past due but not impaired loans per customer groups is as follows (31 December 2014: 56,602):

2015	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	3,848	-	-	-	3,848
Small business lending	-	11,293	-	-	11,293
Total	3,848	11,293	-	-	15,141

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that Bank has TL 11,230 of loans as of 31 December 2015 (31 December 2014: TL 54,414).

Loans and advances to customers not impaired amounting to TL 9,992,483 have floating interest rates (31 December 2014: TL 8,260,541) and the remaining TL 3,640,418 have fixed interest rates (31 December 2014: TL 2,606,317).

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11. INVESTMENT SECURITIES

Available-for-sale investment securities

	31 December 2015	31 December 2014
Government bonds and treasury bills in TL	1,793,224	2,491,044
Debt securities issued by corporations	309,397	460,786
Eurobonds	831,327	530,019
Equity shares	42,773	38,577
Total	2,976,721	3,520,426

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 1,582,761 as at the reporting date (31 December 2014: TL 2,324,039).

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and Takasbank ISE Settlement and Custody Bank Inc. (Clearing House) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2015 and 31 December 2014 are as follows:

	2015 Nominal Value	2015 Carrying Value	2014 Nominal Value	2014 Carrying Value
<u>Government Bonds and Treasury Bills</u>				
Central Bank- Open Market Operations	34,000	34,859	33,000	37,936
Clearing House – Blocked Securities	63,791	63,370	58,591	63,749
Other (International Bank) Foreign Currency	659,987	638,972	131,825	144,767
Central Bank- custody	-	-	5,000	5,087
	757,778	737,201	228,416	251,539

	31 December 2015	31 December 2014
<u>Held to maturity investment securities</u>		
Government bonds and treasury bills in TL	872,602	-
Total	872,602	-

The movement of the held-to-maturity securities as follows:

	31 December 2015	31 December 2014
Balance at 1 January	-	-
Additions (*)	851,290	-
Redemptions	(5,832)	-
Exchange differences	(789)	-
Impairment provision (-)	-	-
Interest income accruals	27,933	-
Total	872,602	-

(*) The Parent Bank reclassified "Government Bond with CPI Index" with a nominal value of TL 533,626 and "Eurobond" with nominal value of USD 34,577 from available-for-sale to held-to-maturity portfolio in the current period.

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11. INVESTMENT SECURITIES (continued)

The Group's equity shares in available-for-sale investment securities are as follows:

	Ownership %	31 December 2015	Ownership %	31 December 2014
Investee				
İstanbul Takas ve Saklama AŞ	1.62	10,724	1.62	10,724
İş B Tipi Yatırım Ortaklığı AŞ	6.95	10,176	6.95	11,610
European Investment Fund	0.18	10,121	0.18	6,240
İş Portföy Yönetimi AŞ	9.9	6,197	9.9	6,197
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ (*)	11.48	1,555	11.48	1,555
Cam Elyaf Sanayi AŞ	0.71	618	0.71	618
TSKB Gayrimenkul Değerleme AŞ (*)	99.99	379	99.99	379
Borsa İstanbul A.Ş.	0.1	372	0.1	372
Sürdürülebilir Danışmanlık AŞ (*)	96	230	96	230
Others	<1.00	2,401	<1.00	652
Total equity shares in available for sale investments		42,773		38,577

(*) The investments in TSKB Gayrimenkul Değerleme AŞ, Sürdürülebilir Danışmanlık AŞ and Ege Tarım Ürünleri Lisanslı Depoculuk AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

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12. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

As at 31 December 2015 and 2014, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2015
Investee			
İş Finansal Kiralama AŞ	28.56	151,454	203,964
İş Faktoring AŞ	21.75	8,700	44,018
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	44,006
		172,596	291,988

	Ownership (%)	Nominal	31 December 2014
Investee			
İş Finansal Kiralama AŞ	28.56	131,805	182,988
İş Faktoring AŞ	21.75	8,700	33,607
İş Girişim Serm. Yat. Ort. AŞ	16.67	12,442	45,140
		152,947	261,735

The Group's share of profit in its equity-accounted investees for the year ended 31 December 2015 was TL 35,280 (31 December 2014: TL 27,136). In 2015 the Group has received dividends of TL 31,294 from its investments in equity-accounted investees (31 December 2014: TL 18,167).

The Group's equity-accounted investees are listed on BIST, except for İş Faktoring AŞ. Based on their closing prices of TL 0.81 of İş Finansal Kiralama AŞ and TL 1.61 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment in listed entities is TL 142,710 (31 December 2014: TL 0.95 of İş Finansal Kiralama AŞ and TL 2.21 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 152,712).

Summary financial information for equity-accounted investees is as follows:

31 December 2015	Total assets	Equity	Current Period Profit	Fair Value
İş Finansal Kiralama AŞ	3,655,849	692,343	81,481	122,678
İş Faktoring AŞ	1,978,756	99,831	24,167	-
İş Girişim Serm. Yat. Ort. AŞ	260,897	257,959	3,625	20,032
	5,895,502	1,050,133	109,273	142,710

31 December 2014	Total assets	Equity	Current Period Profit	Fair Value
İş Finansal Kiralama AŞ	3,161,195	626,023	72,421	125,215
İş Faktoring AŞ	1,454,609	76,177	7,938	-
İş Girişim Serm. Yat. Ort. AŞ	269,124	264,412	14,598	27,497
	4,884,928	966,612	94,957	152,712

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13. GOODWILL

Cost

Balance at 1 January 2014	383
Balance at 31 December 2014	383
Balance at 31 December 2015	<u>383</u>

Impairment

At 1 January 2014	-
At 31 December 2014	-
At 31 December 2015	<u>-</u>

Carrying Amount

Balance at 1 January 2014	383
Balance at 31 December 2014	383
Balance at 31 December 2015	<u>383</u>

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the investees are determined from cash flows projections. The Bank's management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts.

As at 31 December 2015, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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14. PROPERTY AND EQUIPMENT

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	CIP& Advances Given	Total
Acquisition Cost								
Balance at 1 January 2015	1,338	5,653	42,320	8,866	1,426	11,800	810	72,213
Additions	4,783	189	7,071	4,188	329	2,263	9,436	28,259
Disposals	(743)	-	(7,616)	(2,048)	(151)	(273)	(10,246)	(21,077)
Change in fair value (*)	30,413	-	119,723	-	-	-	-	150,136
Balance at 31 December 2015	35,791	5,842	161,498	11,006	1,604	13,790	-	229,531

Accumulated Depreciation

Balance at 1 January 2015	(174)	(4,208)	(24,763)	(6,613)	(518)	(9,318)	-	(45,594)
Charge for the year	-	(396)	(675)	(1,612)	(248)	(961)	-	(3,892)
Impairment during the year	-	-	-	-	-	(186)	-	(186)
Disposals (*)	13	-	1,611	178	110	273	-	2,185
Change in fair value (*)	-	-	24,983	-	-	-	-	24,983
Balance at 31 December 2015	(161)	(4,604)	1,156	(8,047)	(656)	(10,192)	-	(22,504)
Net Book Value at 31 December 2015	35,630	1,238	162,654	2,959	948	3,598	-	207,027

At 31 December 2015, the net carrying amount of leased property and equipment is TL 366.

(*) Since the third quarter of the current period, the Group changed its accounting policy and adopted revaluation method under scope of IAS 16 with respect to valuation of immovable properties included in tangible fixed assets.

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14. PROPERTY AND EQUIPMENT (continued)

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	CIP & Advances Given	Total
Acquisition Cost								
Balance at 1 January 2014	1,339	5,546	41,724	8,216	1,420	10,842	-	69,087
Additions	463	287	1,658	1,077	761	995	1,562	6,803
Disposals	(464)	(180)	(1,706)	(427)	(755)	(143)	-	(3,675)
Transfers from CIP	-	-	644	-	-	106	-	750
Transfers to other items	-	-	-	-	-	-	(752)	(752)
Balance at 31 December 2014	1,338	5,653	42,320	8,866	1,426	11,800	810	72,213

Accumulated Depreciation

Balance at 1 January 2014	(495)	(3,881)	(23,992)	(6,403)	(948)	(8,801)	-	(44,520)
Charge for the year	-	(392)	(786)	(637)	(276)	(652)	-	(2,743)
Impairment during the year	(17)	-	-	-	-	-	-	(17)
Disposals	338	65	15	427	706	135	-	1,686
Balance at 31 December 2014	(174)	(4,208)	(24,763)	(6,613)	(518)	(9,318)	-	(45,594)
Net Book Value at 31 December 2014	1,164	1,445	17,557	2,253	908	2,482	810	26,619

At 31 December 2014, the net carrying amount of leased property and equipment is TL 492.

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15. INVESTMENT PROPERTY

	31 December 2015	31 December 2014
Fair value of investment properties	241,293	224,090
	241,293	224,090

The Group's investment properties are held under freehold interests.

In the current period, the Group has 3 investment properties with a total net book value of TL 241,293 (31 December 2014: TL 224,090) belonging to the Parent Bank's subsidiary operating in the real-estate investment trust sector.

The total external rent income earned by the Group from its investment properties is TL 9,034 in the current period (31 December 2014: TL 7,810).

The movement of investment properties as at 31 December 2015 and 31 December 2014 are as follows:

<u>Current Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	15,460	-	-	4,445	19,905
Pendorya Mall	168,400	1,281	-	(12,706)	156,975
Adana Hotel Project	40,230	14,727	(2)	9,458	64,413
Total	224,090	16,008	(2)	1,197	241,293

<u>Prior Period</u>	Closing Balance of Prior Period	Additions	Disposals	Change in Fair Value	Closing Balance of Current Period
Tahir Han	14,320	-	-	1,140	15,460
Pendorya Mall	179,200	686	-	(11,486)	168,400
Adana Hotel Project	28,775	23,346	(10,346)	(1,545)	40,230
Total	222,295	24,032	(10,346)	(11,891)	224,090

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15. INVESTMENT PROPERTY (continued)

Fair value measurement

The Group's investment properties are valued annually by an independent real estate appraisal company. The fair value of investment properties are within the scope of Level 3 according to valuation techniques. Reconciliation of Level 3 is given at the following table:

	1 January – 31 December 2015	1 January – 31 December 2014
Balance 1 January	224,090	222,295
Addition	16,008	24,032
Disposal	(2)	(10,346)
Recognized in other income from other operations		
Change in fair value	9,458	1,140
Recognized in other expense from other operations		
Change in fair value	(12,706)	(13,031)
Transfer (*)	(15,460)	-
Total	221,388	224,090

(*) In 2015, due to the changes in valuation techniques of Tahir Han has considered as level 2 that was evaluated in Level 3 in 2014.

16. INTANGIBLE ASSETS

The intangible fixed assets include software that are amortised principally on straight line basis which amortise the assets over their expected useful lives.

	31 December 2015	31 December 2014
<u>Acquisition cost</u>		
Balance at 1 January	5,652	5,168
Additions	407	506
Disposals	-	(22)
Balance at 31 December	6,059	5,652
<u>Accumulated amortisation</u>		
Balance at 1 January	(4,483)	(3,923)
Charge for the year	(524)	(582)
Disposals	-	22
Balance at 31 December	5,007	(4,483)
Net Book Value, as at 31 December	1,052	1,169

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17. OTHER ASSETS

	31 December 2015	31 December 2014
Cash guarantees given	180,778	46,540
Prepaid expenses	40,567	23,471
VAT carried forward	11,506	8,620
Prepaid taxes	1,900	2,477
Trade receivables	3,282	1,311
Receivables from brokerage customers	719	2,036
Other	19,020	8,804
Total	257,772	93,259

18. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	2015 Carrying Value of Underlying Securities	2015 Carrying Value of Corresponding Liability	2015 Repurchase Value
Available for sale investment securities	1,582,761	1,482,472	687,715
Held to maturity investment securities	714,229	685,563	1,484,013
	2,296,990	2,168,035	2,171,728

	2014 Carrying Value of Underlying Securities	2014 Carrying Value of Corresponding Liability	2014 Repurchase Value
Available for sale investment securities	2,324,039	2,162,494	2,163,539
	2,324,039	2,162,494	2,163,539

The repurchase agreements have maturity periods between 4-94 days (31 December 2014: 1-62). The Group has applied interest rates of 0.5%-0.7% for foreign currency, 6.00%-10.75% for Turkish Lira agreements (31 December 2014: 0.25%-0.78% for foreign currency, 6.00%-10.20% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 115 (31 December 2014: TL 234).

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19. FUNDS BORROWED

	31 December 2015	31 December 2014
Short-term funds	115,904	595,067
Short-term portion of medium and long-term funds	2,374,562	1,049,670
Medium and long-term funds	10,951,365	8,506,845
Total	13,441,831	10,151,582
	31 December 2015	31 December 2014
Foreign currencies	13,186,219	9,923,663
Turkish Lira	255,612	227,919
Total	13,441,831	10,151,582

The Group did not have any default of principal, interest on redemption amounts or other breaches of loan covenants as of 31 December 2015 (31 December 2014: None).

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19. FUNDS BORROWED (continued)

As at 31 December 2015, interest rates and maturities of bank borrowings are as follows:

31 December 2015	Amount	Maturity		Interest Rate (%)	
		(Min	Max)	(Min	Max)
<u>Foreign Currency Borrowings</u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	396,430	15.01.2020		0.71	0.71
-EFIL III	461,708	15.01.2021		0.33	0.71
-EFIL IV	760,496	15.07.2036		0.13	0.51
-IBRD SME	181,302	15.03.2021		0.10	0.59
-IBRD-Renewable Energy Loan	1,712,967	15.03.2017	15.06.2039	0.18	1.30
-IBRD EFIL IV Limit Arttırımı	799,283		15.12.2038	0.51	1.30
-IBRD Innovative Access to Finance	114,186		15.03.2042	0.59	1.09
	4,426,372				
European Investment Bank (EIB)	3,474,672	15.03.2016	21.12.2027	0.02	2.39
Kreditanstalt Für Wiederaufbau (KfW)	1,262,511	30.11.2016	30.12.2032	0.01	3.35
Council of European Development Bank (CEB)	704,066	15.10.2016	30.06.2022	0.01	1.55
Association of French Development (AFD)	239,838	31.01.2017	01.10.2024	0.25	1.33
Domestic bank borrowings	259,864	04.01.2016	04.01.2016	0.45	0.70
Syndicated Loan (*)	727,016	11.07.2016	11.07.2016	0.65	1.05
European Bank for Reconstruction and Development EBRD	131,325	18.01.2017	10.03.2022	2.05	3.49
Intesa	63,797	14.01.2016	12.04.2016	1.25	1.40
Islam Development Bank (IDB) (**)	977,958	19.02.2023	24.03.2030	2.72	3.95
International Finance Corporation	304,522	15.12.2018	15.12.2019	3.60	3.75
Credit Suisse	362,299	19.01.2016	23.03.2023	2.00	2.09
Doha Bank	15,823	24.06.2016	24.06.2016	1.16	1.16
JP Morgan Securities	68,832	05.06.2020	05.06.2020	2.90	2.90
Woori Bank	8,708	09.02.2016	04.08.2016	1.89	1.89
Oesterreichische Entwicklungsbank AG (OEB)	63,367	15.12.2026	15.12.2026	2.60	2.60
Citibank	73,040	25.09.2018	26.09.2022	1.38	2.83
Banco Do Brasil S.A. London	22,209	04.08.2016	04.08.2016	0.65	0.65
	8,759,847				
Total foreign currency borrowings	13,186,219				
<u>Turkish Lira Borrowings</u>					
Domestic bank borrowings	186,611	04.01.2016	04.01.2016	10.90	11.10
Credit Suisse	69,001	11.07.2019	16.01.2020	7.30	8.00
Total Turkish Lira borrowings	255,612				
Total	13,441,831				

(*) Within the framework of the decisions taken by the Board of Directors of the Bank, on 25 June 2015, the Bank has used a syndicated loan from international markets in two tranches amounting to USD 17,5 million and Euro 213 million with maturity 2 July 2015 under the coordination of Commerzbank Aktiengesellschaft.

(**) On 30 December 2013, The Agreement of the Restricted Mudaraba financing possibility that provided from Islamic Development Bank has been signed with amounting to USD 220 million under the Treasury guarantee for the financing of renewable energy and energy efficiency project that will be held in Turkey.

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19. FUNDS BORROWED (continued)

As at 31 December 2014, interest rates and maturities of bank borrowings are as follows:

31 December 2014	Amount	Maturity		Interest Rate (%)	
		(Min	Max)	(Min	Max)
<u>Foreign Currency Borrowings</u>					
International Bank for Reconstruction and Development (IBRD)					
-EFIL II	385,560		15.01.2020	0.58	0.58
-EFIL III	449,194		15.01.2021	0.54	0.58
-EFIL IV	638,188		15.07.2036	0.34	0.38
-IBRD SME	181,608		15.03.2021	0.21	0.38
-IBRD-Renewable Energy Loan	1,487,261	15.03.2017	15.06.2039	0.24	0.84
-IBRD EFIL IV Limit Arttırımı	661,080		15.12.2038	0.68	0.84
	3,802,891				
European Investment Bank (EIB)	2,802,248	15.03.2015	14.06.2027	0.23	1.99
Kreditanstalt Für Wiederaufbau (KfW)	853,876	31.05.2015	30.12.2032	0.18	3.35
Council of European Development Bank (CEB)	656,668	15.04.2015	17.12.2021	0.37	1.28
Association of French Development (AFD)	250,648	31.01.2017	01.10.2024	0.25	1.38
Promissory Note	54,812		05.06.2020	2.90	2.90
Domestic bank borrowings	208,464		02.01.2015	0.25	0.50
Syndicated Loan (*)	279,243		10.07.2015	0.95	0.98
European Bank for Reconstruction and Development EBRD	113,241		18.07.2017	2.30	2.30
Intesa	28,109		01.04.2015	1.38	1.38
Islam Development Bank (IDB)	501,884	19.02.2023	27.05.2029	2.72	3.95
International Finance Corporation	253,928	15.12.2018	15.12.2019	3.19	3.34
Credit Suisse	57,855		17.01.2016	1.92	1.92
Doha Bank	51,315	24.03.2015	25.08.2015	1.35	1.83
Oyak Anker Bank Gmbh	8,481		10.07.2015	1.90	1.90
	6,120,772				
Total foreign currency borrowings	9,923,663				
<u>Turkish Lira Borrowings</u>					
Domestic bank borrowings	227,919	16.02.2015	30.03.2015	7.29	7.29
Total Turkish Lira borrowings	227,919				
Total	10,151,582				

(*) Within the framework of the decisions taken by the Board of Directors of the Bank, on 11 July 2014, the Bank has used a syndicated loan from international markets in two tranches amounting to USD 10 million and Euro 91 million with maturity 10 July 2015 under the coordination of Commerzbank Aktiengesellschaft.

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20. DEBT SECURITIES ISSUED

	31 December 2015	31 December 2014
Debt securities issued at amortised cost	2,037,571	813,824
Total	2,037,571	813,824

As of 27 October 2014, the Bank's sales transactions on the issuance of bonds or similar securities amounting to maximum USD 750 million in abroad is completed and the debt instruments having nominal value of USD 350 million are determined with maturity of 30 October 2019 with fixed interest rate, five year maturity and semiannual coupon payment with an interest rate of 5.375%. Accordingly, as of 22 April 2015, the issuance of second Eurobond with nominal value of USD 350 million has been realized. The debt instruments are determined with a maturity of 22 April 2020 with fixed interest rate, five year maturity and semiannual coupon payment with an interest rate of 5.125%.

21. OTHER LIABILITIES

	31 December 2015	31 December 2014
Unearned revenue	78,175	61,215
Guarantees given	23,050	10,409
Payables to clearing accounts	12,660	12,991
Deposits and advances taken for imports	-	630
Other	6,397	3,444
Total	120,282	88,689

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22. TAXATION

Corporate Tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2015 (31 December 2014: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

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

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2015 is 20% (31 December 2014: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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. 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 Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

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

The effective tax rate has been taken as 20% in 2015 (31 December 2014: 20%).

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22. TAXATION (continued)

Transfer Pricing

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

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

Deferred Tax

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

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22. TAXATION (continued)

Deferred Tax (continued)

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2014: 20%) is used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

a) Statement of financial position:

	31 December 2015	31 December 2014
Corporate tax provision	76,641	120,210
Corporate tax paid in advance	(34,770)	(87,820)
Corporate tax liability	41,871	32,390

b) Statement of Profit or Loss:

	31 December 2015	31 December 2014
Corporate tax expense	76,641	120,210
Deferred tax (income)/expense	26,295	(21,900)
	102,936	98,310

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	31 December 2015	31 December 2014
Loan commissions	16,103	12,365
Impairment losses on loans	8,485	6,608
Accruals on derivative financial instruments	5,943	-
Reserve for employee severance indemnity and unused vacation provision	2,053	1,875
Valuation of marketable securities	-	-
Others	5,035	5,194
Total deferred tax asset	37,619	26,042
Valuation of marketable securities	(2,694)	(11,259)
Borrowing commissions	(7,265)	(5,340)
Accruals on derivative financial instruments	-	(253)
Useful life differences on property and equipment	(402)	(227)
Others	(11,653)	(23)
Total deferred tax liability	(22,014)	(17,102)

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22. TAXATION (continued)

Deferred Tax (continued)

Reflected as:

	31 December 2015	31 December 2014
Deferred tax assets	37,619	26,042
Deferred tax liabilities (-)	(22,014)	(17,102)
Total deferred tax assets, net	15,605	8,940

Taxation can be reconciled to the profit per the income statement as follows:

	%	31 December 2015	%	31 December 2014
<u>Reconciliation of Taxation</u>				
Income before taxation		547,810		494,777
Tax at the statutory income tax rate of 20%	20.00	(109,562)	20.00	(98,955)
Tax effect of income that is deductible in determining taxable income	(0.64)	3,532	(0.61)	3,008
Tax effect of undeductable expenses	0.87	(4,786)	1.54	(7,619)
Tax effect of dividend income	(1.16)	6,349	(0.92)	4,549
Tax effect of other deductions	(0.28)	1,531	(0.14)	707
Income tax expense	18.79	(102,936)	20.48	(98,310)

Movements in temporary differences for the years ended 31 December 2015 and 2014 are as follows:

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2015				
Loan commissions	12,365	3,738	-	16,103
Impairment losses on loans	6,608	1,877	-	8,485
Reserve for employee severance indemnity and unused vacation provision	1,875	102	76	2,053
Valuation of marketable securities	(11,259)	(25,920)	34,485	(2,694)
Useful life differences on property and equipment	(227)	(175)	-	(402)
Borrowing commissions	(5,340)	(1,925)	-	(7,265)
Accruals on derivative financial instruments	(253)	6,196	-	5,943
Other	5,171	(10,188)	(1,601)	(6,618)
Net deferred tax asset / (liability)	8,940	(26,295)	32,960	15,605

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22. TAXATION (continued)

Deferred Tax (continued)

	Balance at 1 January	Recognized in profit or loss	Recognized in other comprehensive income	Balance at 31 December
2014				
Loan commissions	11,771	594	-	12,365
Impairment losses on loans	6,081	527	-	6,608
Reserve for employee severance indemnity and unused vacation provision	1,712	30	133	1,875
Valuation of marketable securities	(5,414)	22,225	(28,070)	(11,259)
Useful life differences on property and equipment	(118)	(109)	-	(227)
Borrowing commissions	(3,111)	(2,229)	-	(5,340)
Accruals on derivative financial instruments	3,597	(3,850)	-	(253)
Other	459	4,712	-	5,171
Net deferred tax asset / (liability)	14,977	21,900	(27,937)	8,940

23. EMPLOYEE BENEFITS

	2015	2014
<u>Movement of reserve for employee severance indemnity</u>		
Balance at 1 January	7,932	7,122
Interest cost	730	753
Service cost	1,081	789
Loss/(Gain) due to Settlements / Reductions / Terminations	102	910
Payment during the year	(1,180)	(2,199)
Actuarial difference	402	557
Balance at 31 December	9,067	7,932
<u>Movement of provision for unused vacations</u>		
Balance at 1 January	1,543	1,554
Provision for the year	318	-
Provisions released	(161)	(11)
Balance at 31 December	1,700	1,543
<u>Movement of provision for bonus payments</u>		
Balance at 1 January	7,902	6,596
Provision for the year	8,996	7,582
Bonus paid	(7,894)	(6,533)
Income and expenses of the prior period	(8)	257
Balance at 31 December	8,996	7,902
Employee benefits	19,763	17,377

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23. EMPLOYEE BENEFITS (continued)

a) Pension scheme

The Group has established two pension schemes, which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group's assets in the Pension Funds. These schemes are valued by independent actuaries every year. As per the latest actuarial valuation carried out as at 31 December 2015, the Bank has no obligation to book any provision for the Pension Funds.

b) Reserve for employee severance indemnity

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

Such payments are calculated on the basis of 30 days pay maximum full TL 3,828 as at 31 December 2015 (31 December 2014: full TL 3,438) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	2015	2014
Interest rate	11.00%	10.06%
Expected rate of increase in salaries and eligible ceiling	8.82%	8.17%
Discount rate	2.00%	1.75%

24. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting to US Dollar 50,000,000. As at 31 December 2015, carrying value of subordinated loan is TL 145,836 (31 December 2014: TL 116,065).

The date of the loan contract is 21 September 2004 and the first usage date was 5 November 2004. The interest rate of the subordinated loan is Libor 0.525+ 3.00%; which corresponds to 3.525% as at the reporting date. Total repayment of principal of the subordinated loan will be on 15 October 2016 as a whole.

25. PAYABLES TO STOCK EXCHANGE MONEY MARKET

	31 December 2015	31 December 2014
Payables to stock exchange money market	182,505	110,219
Total	182,505	110,219

Payables to stock exchange money markets have a maturity of 4-35 days (31 December 2014: 2-22 days) with between 12.40% and 15.10% (31 December 2014: between 10.05% and 10.70%) of interest rates.

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26. CAPITAL AND RESERVES

Share Capital

As at 31 December 2015, the authorized and issued capital consists of 175,000,000,000 shares of 0.01 Turkish Lira each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

31 December 2015	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ (*)	50.33	880,723	880,723
T. Vakıflar Bankası T.A.O.	8.38	146,606	146,606
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.29	722,671	722,671
	100.00	1,750,000	1,750,000
<u>Components of Capital:</u>			
Nominal capital		1,750,000	1,750,000
Effect of inflation		13,563	13,563
		1,763,563	1,763,563
<hr/>			
31 December 2014	%	Authorized Capital	Paid-In Capital
<u>Shareholders</u>			
T. İş Bankası AŞ	50.00	750,002	750,002
T. Vakıflar Bankası T.A.O.	8.38	125,662	125,662
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.62	624,336	624,336
	100.00	1,500,000	1,500,000
<u>Components of Capital:</u>			
Nominal capital		1,500,000	1,500,000
Effect of inflation		13,563	13,563
		1,513,563	1,513,563

(*) T. İş Bankası A.Ş. Group share is calculated by considering T. İş Bankası A.Ş.'s purchases in free floating of BIST in December 2015 of Bank shares.

In the meeting of the General Assembly held on 26 March 2015, it has been resolved that, paid-in capital of the Bank will be increased from TL 1,500,000 to TL 1,750,000 by adding TL 250,000. In respect of the resolution of the General Assembly, TL 234,000 of this increase will be incorporated from the profit of the year 2014, TL 16,000 of this increase will be incorporated from extraordinary reserves provided for gain on subsidiary and real estate based on article of CTL-5(1)/e. The increase in paid-in capital was approved by the BRSA on 15 May 2015.

In the meeting of the General Assembly held on 27 March 2014, it has been resolved that, paid-in capital of the Bank will be increased from TL 1,300,000 to TL 1,500,000 by TL 200,000. In respect of the resolution of the General Assembly, this increase will be incorporated from the profit of the year 2013. The increase in paid-in capital was approved by the BRSA on 16 April 2014 and has been published in the Turkish Trade Registry Gazette No: 8573 on 21 May 2014.

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26. CAPITAL AND RESERVES (continued)

Legal reserves

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

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets, until the assets are derecognised or impaired.

Revaluation reserve

As of the third quarter of 2015, the Bank, has changed its accounting policies from historical cost method to revaluation method for the real estate properties which are held for own use in accordance with "IAS 16 - Property, Plant and Equipment". The positive difference between the net book value of real estate property values and the expertise values which are determined by the certified valuation companies are recorded in "Revaluation surplus on tangible assets" under the shareholders' equity.

Dividends

At the Ordinary General Assembly of the Parent Bank held on 26 March 2015, it was decided to distribute a dividend of TL 72,000 to shareholders and TL 8,262 to personnel, members of Board of Directors and to allocate TL 19,305 to legal reserves from retained earnings.

Non-controlling interests

As at the reporting date the non-controlling interests are as follows:

	31 December 2015	31 December 2014
Capital	47,008	50,772
Share premium	165	180
Fair value reserve	129	139
Legal reserve	118	120
Retained earnings	14,711	15,677
Current period net income	3,359	565
	65,490	67,453

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27. OTHER OPERATING INCOME

	1 January- 31 December 2015	1 January- 31 December 2014
Increase in value of investment properties	13,903	1,140
Rent income	9,034	7,810
Provisions released	1,508	2,115
Gain on sale of assets	84	11,097
Other	3,624	2,890
	28,153	25,052

28. DIVIDEND INCOME

	1 January- 31 December 2015	1 January- 31 December 2014
Available-for-sale securities	9,595	1,970
Trading securities	385	530
Other	195	7,234
	10,175	9,734

29. OTHER OPERATING EXPENSES

	1 January- 31 December 2015	1 January- 31 December 2014
Personnel expenses	85,324	78,051
Other administrative expenses	30,306	25,972
Impairment in value of investment property	12,706	13,031
Depreciation, impairment and amortisation	4,602	15,233
Marketing expenses	1,400	1,048
Taxes and dues other than on income	571	388
Other	6,575	28,007
	141,484	161,730

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30. SEGMENT REPORTING

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

For management purposes, the Group is currently organized into two operating divisions – “banking” and “stock brokerage and other”. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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30. SEGMENTS REPORTING (continued)

CONSOLIDATED STATEMENT OF PROFIT

OR LOSS

(1 January – 31 December 2015)

	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	1,079,798	23,715	1,103,513	(4,788)	1,098,725
Interest expense	(454,727)	(50,244)	(504,971)	4,788	(500,183)
Net interest income	625,071	(26,529)	598,542	-	598,542
Net fee and commission income	11,418	18,129	29,547	-	29,547
Net securities trading income / (loss)	3,651	(84)	3,567	-	3,567
Net derivative trading income / (loss)	(106,758)	(15,255)	(122,013)	-	(122,013)
Net foreign currency gains / (losses)	101,124	23,102	124,226	-	124,226
Impairment losses on financial assets	(17,477)	(706)	(18,183)	-	(18,183)
Net operating income after impairment losses	617,029	(1,343)	615,686	-	615,686
Other operating income	18,830	55,983	74,813	(46,660)	28,153
Other operating expenses	(102,370)	(47,112)	(149,482)	7,998	(141,484)
Dividend income	33,605	1,798	35,403	(25,228)	10,175
Share of profit of equity-accounted investees	35,280	-	35,280	-	35,280
Profit before income tax	602,374	9,326	611,700	(63,890)	547,810

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30. SEGMENT REPORTING (continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS					
(1 January – 31 December 2014)					
	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	801,367	27,256	828,623	(8,705)	819,918
Interest expense	(255,135)	(44,865)	(300,000)	8,705	(291,295)
Net interest income	546,232	(17,609)	528,623	-	528,623
Net fee and commission income	11,164	18,336	29,500	-	29,500
Net securities trading income / (loss)	(1,605)	891	(714)	-	(714)
Net derivative trading income / (loss)	(66,817)	19,928	(46,889)	-	(46,889)
Net foreign currency gains / (losses)	83,047	5,794	88,841	-	88,841
Impairment losses on financial assets	(4,050)	(726)	(4,776)	-	(4,776)
Net operating income after impairment	567,971	26,614	594,585	-	594,585
Other operating income	15,698	17,682	33,380	(8,328)	25,052
Other operating expenses	(114,276)	(43,735)	(158,011)	(3,719)	(161,730)
Dividend income	23,568	530	24,098	(14,364)	9,734
Share of profit of equity-accounted investees	27,136	-	27,136	-	27,136
Profit before income tax	520,097	1,091	521,188	(26,411)	494,777

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30. SEGMENT REPORTING (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION		Banking	Stock brokerage and other	Combined	Eliminations	Total
<u>At 31 December 2015</u>						
Total assets		20,839,034	752,546	21,591,580	(218,589)	21,372,991
Total liabilities		18,035,527	456,110	18,491,637	(112,913)	18,378,724
Equity before net profit & non-controlling interests		2,340,246	286,213	2,626,459	(139,197)	2,487,262
Net profit attributable to equity holders of the Bank		463,261	10,223	473,484	(31,969)	441,515
Non-controlling interests		-	-	-	65,490	65,490
Total equity		2,803,507	296,436	3,099,943	(105,676)	2,994,267
Total liabilities and equity		20,839,034	752,546	21,591,580	(218,589)	21,372,991
<u>At 31 December 2014</u>						
Total assets		15,730,635	870,026	16,600,661	(399,369)	16,201,292
Total liabilities		13,204,434	583,577	13,788,011	(187,321)	13,600,690
Equity before net profit & non-controlling interests		2,131,792	285,116	2,416,908	(279,661)	2,137,247
Net profit attributable to equity holders of the Bank		394,409	1,333	395,742	160	395,902
Non-controlling interests		-	-	-	67,453	67,453
Total equity		2,526,201	286,449	2,812,650	(212,048)	2,600,602
Total liabilities and equity		15,730,635	870,026	16,600,661	(399,369)	16,201,292

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31. RELATED PARTIES

For the purposes of the accompanying consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying consolidated financial statements include the following balances due from or due to related parties:

	31 December 2015	31 December 2014
<u>Balances with related parties</u>		
Loans and advances to customers	484,797	271,858
Non-cash loans	117,734	117,676
Loans and advances to banks	54,174	73,946
Available for sale investment securities	21,306	38,807
Other assets	45	-
Other liabilities	20	4
	1 January – 31 December 2015	1 January – 31 December 2014
<u>Transactions with related parties</u>		
Income from associates	35,280	27,136
Dividend income	10,175	13,876
Interest income	11,266	10,733
Foreign exchange gain (loss), net	35,152	5,535
Net fee and commission income / (expense), net	734	679
Other income	324	226

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 11,897 (31 December 2014: TL 10,762).

32. COMMITMENTS AND CONTINGENCIES

	31 December 2015	31 December 2014
Swap and forward agreements	12,990,807	7,999,655
Revocable and irrevocable commitments	5,026,305	3,346,798
Letters of guarantee	1,196,747	956,972
Option agreements	2,476,548	1,486,931
Derivative financial instruments for hedging purposes	4,689,900	-
Letters of credit	566,890	496,097
Bank acceptances	19,027	-
Other commitments	89,210	74,677
	27,055,434	14,361,130

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32. COMMITMENTS AND CONTINGENCIES (continued)

Fiduciary Activities

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

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 1,772,777 as at 31 December 2015 (31 December 2014: TL 3,669,853). As at 31 December 2015, securities at custody with market value amounted to TL 3,452,324 (31 December 2014: TL 4,701,738).

Securities Blocked and Letters of Guarantee Given to BIST as Collateral for Trading on Markets

As at 31 December 2015, according to the general requirements of the BIST, letters of guarantee amounting to TL 25,509 (31 December 2014: TL 25,518) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 31 December 2015 there is TL 2,102 letters of guarantee were given to the Capital Markets Board (31 December 2014: 2,102).

The Group's trading securities given as collateral or blocked amounted to TL 2,544 at the reporting date (31 December 2014: TL 7,878).

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

There are 45 legal cases against the Group which are amounting to TL 5,919 as of the reporting date (31 December 2014: TL 1,162 - 32 legal cases).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (Foundation) established in accordance with the decisions of Turkish Commercial Law and Civil Law as made to all Foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of Foundation worked at the time of payment, the amount Foundation members are obliged to pay should not been deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stamp duty deducted from allowance and total amount of TL 17,325 tax penalty notice relating to period in question to the Bank relying on this report. The Bank assesses that the Bank's practice is in compliance with the legislation and there is no legal basis for the tax administration's suspended assessments, therefore, lawsuits have been filed against the subjected assessments in various tax courts in İstanbul, Ankara and İzmir.

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32. COMMITMENTS AND CONTINGENCIES (continued)

Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Bank against the decision of the Court with respect to the Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Bank are accrued by administration depending on legal process and as of 31 July 2014 the Bank has made total payments amounting to TL 22,091.

A similar case has been submitted to the Constitutional Court (AYM) in the form of individual remedies by the main shareholder of the Bank in relation to the Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the Bank was contrary to the principle of legality and the Bank's property rights has been violated. This decision is considered to be a precedent for the Bank and an amount of TL 12,750 corresponding to the portion that the Bank was obliged to pay for the related period is recognised as income in the current period.

Plaintiff ultimately filed a lawsuit against IBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as intervening party.

Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. IBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from "Possessory Actions" and converted to the "Confiscating without expropriating" by the judge.

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. Justified decision has been declared and the decision appealed by Pendik Municipality is being waited for the return from Supreme Court.

Other

The Group's 1 head office and 13 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 28 cars and 100 computers are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2014: 1 head office, 13 branches and 29 cars are subject to operational leasing).

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33. DERIVATIVE FINANCIAL INSTRUMENTS

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, US Dollar and Euro.

	2015	2015	2014	2014
	Assets	Liabilities	Assets	Liabilities
Currency swaps	54,095	(76,957)	38,980	(30,169)
Options	73,596	(73,632)	21,156	(20,935)
Foreign currency forward contracts	3,375	(2,101)	119	(333)
Interest rate swaps	38,728	(22,260)	14,619	(12,139)
	169,794	(174,950)	74,874	(63,576)

Derivatives held for risk management

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in interest rates within certain guidelines. Interest rate swaps are used for this purposes as derivative financial instruments.

In this respect, The fixed rate Eurobond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognised under the statement of profit/loss. At the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The fair value of derivatives designated as fair value hedges are as follows:

Instrument type	2015	2015	2014	2014
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	4,093	(5,799)	-	-
	4,093	(5,799)	-	-

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33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	31 December 2015	31 December 2014
Forward foreign exchange contracts – buy	204,454	24,884
Forward foreign exchange contracts – sell	202,634	24,862
Currency swaps – buy	2,718,071	1,425,455
Currency swaps – sell	2,676,768	1,351,494
Interest rate swaps – buy	3,594,440	2,586,480
Interest rate swaps – sell	3,594,440	2,586,480
Currency option – buy	1,238,199	744,518
Currency option – sell	1,238,349	742,413
Other – sell	89,360	74,677

34. DIVIDENDS

In March 2015, dividends amounting to TL 80,262 were paid. In March 2014, the dividends paid were TL 72,581.

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35. EARNINGS PER SHARE

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

A summary of the weighted average number of shares outstanding for the year ended 31 December 2015 and 31 December 2014 and the basic earnings per share calculation is as follows:

	1 January – 31 December 2015	1 January – 31 December 2014
Number of shares outstanding at 1 January	1,500,000,000,000	1,300,000,000,000
<i>New shares issued</i>		
Conversion of existing reserves (*)	250,000,000,000	200,000,000,000
Number of shares outstanding at the period end	1,750,000,000,000	1,500,000,000,000
Weighted average number of shares during the period	1,750,000,000,000	1,500,000,000,000
Net profit attributable to equity holders of the Bank	441,515	395,902
Basic and diluted earnings per share (in full Kurus) (*)	0.2523	0.2262

(*) Capital increase is made through internal resources and prior period's earnings per share figure is revised by using the number of shares subsequent to the capital increase.

There is no dilution of shares as of 31 December 2015.

36. EVENTS AFTER THE REPORTING PERIOD

In the meeting of the General Assembly held on 24 March 2016, it has been resolved that, paid-in capital of the Bank will be increased from TL 1.750.000 to TL 2.050.000 by adding TL 300.000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2015. The applications to BRSA and CMB related to increase has been performed, and the process is not finalised as of report date.