ICBC Turkey Bank Anonim Şirketi and Its Subsidiaries

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

ICBC Turkey Bank Anonim Şirketi and Its Subsidiaries

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Building a better working world

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of ICBC Turkey Bank Anonim Şirketi:

Report on the consolidated financial statements

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

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 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst &Young Global Limited

Yaşar Bivas, SMMM
Partner

10 March, 2016
Istanbul, Turkey

ICBC Turkey Bank Anonim Şirketi and Its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2015
(Currency – In thousands of Turkish Lira (TL))

	Notes	31 December 2015	31 December 2014
ASSETS			
Cash and balances with the Central Bank	6	336,488	216,610
Reserve deposits at Central Bank	6	609,051	131,980
Due from banks	6	300,395	83,639
Cash collateral on securities borrowed and reverse repurchase agreements	6	-	75,023
Money market placements	6	77,031	11,003
Financial assets at fair value through profit and loss			
-Trading securities	7	18	2,478
-Derivative financial instruments	17	239	12,785
Loans and advances to customers	9	4,118,000	2,772,994
Investment securities	8		
-Available-for-sale		475,163	129,030
-Available-for-sale pledged as collateral		611,291	74,697
Property and equipment	10	26,687	26,821
Intangible assets	11	1,496	1,974
Deferred tax assets	16	13,557	9,722
Other assets	12	74,710	83,682
Total assets		**6,644,126**	**3,632,438**
LIABILITIES			
Due to banks	13	37	165,027
Deposits	13	2,134,512	2,342,233
Other money market deposits	13	518,817	64,359
Derivative financial instruments	17	4,256	5,735
Funds borrowed	14	3,155,498	348,103
Income tax payable	16	1,208	150
Employee benefits	15	11,869	11,035
Provisions	15	12,495	9,876
Other liabilities	15	203,806	75,108
Total liabilities		**6,042,498**	**3,021,626**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	18	420,000	420,000
Adjustment to share capital		4,108	4,108
Share capital premium		184	184
Fair value reserves		(10,264)	1,835
Revaluation surplus on buildings		8,694	6,867
Actuarial gain/(loss)		305	(567)
Legal reserves and retained earnings	19	178,601	178,385
Total equity		**601,628**	**610,812**
Total liabilities and equity		**6,644,126**	**3,632,438**

The accompanying policies and explanatory notes on pages 7 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2015
(Currency – In thousands of Turkish Lira (TL))

	Notes	1 January – 31 December 2015	1 January – 31 December 2014
Interest income			
Interest on loans and advances		300,923	298,329
Interest on securities		35,543	38,889
Interest on deposits with other banks and financial institutions		1,395	2,006
Interest on other money market placements		2,193	762
Other interest income		3,687	3,576
Total interest income		**343,741**	**343,562**
Interest expense			
Interest on deposits		(140,875)	(134,282)
Interest on funds borrowed		(17,881)	(9,330)
Interest on other money market deposits		(9,018)	(16,794)
Other interest expense		(37,116)	(44,460)
Total interest expense		**(204,890)**	**(204,866)**
Net interest income		**138,851**	**138,696**
Net impairment of loans and advances and credit related commitments	9	(17,583)	(41,051)
Net interest income after provision for impairment of loans and advances		**121,268**	**97,645**
Foreign exchange gain/(loss), net		(1,134)	(121)
Net interest income after foreign exchange gain and provision for impairment of loans and advances		**120,134**	**97,524**
Other operating income			
Fee and commission income	23	6,416	8,486
Income from banking services	24	11,801	13,764
Net trading income	8,25	10,966	18,162
Other income	26	24,220	5,701
		53,403	46,113
Other operating expenses			
Fee and commission expense	23	(5,719)	(4,924)
Salaries and employee benefits	27	(99,275)	(80,701)
Depreciation and amortization	10,11	(4,199)	(3,828)
Taxes other than on income		(8,123)	(6,148)
General and administrative expenses	28	(43,141)	(36,545)
Other expenses	29	(11,519)	(8,549)
		(171,976)	(140,695)
Profit from operating activities before income tax		**1,561**	**2,942**
Income tax – current	16	(2,863)	(2,077)
Income tax – deferred	16	1,518	1,363
Profit for the year		**216**	**2,228**

The accompanying policies and explanatory notes on pages 7 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015
(Currency – In thousands of Turkish Lira (TL))

	Notes	1 January – 31 December 2015	1 January – 31 December 2014
Attributable to:			
Equity holders of the Bank		216	2,228
Non-controlling interest		-	-
Profit for the year		**216**	**2,228**
Earnings per share (Kurus)	21	**0.01**	**0.05**
Other comprehensive income, net of income tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Fair value reserves (available-for-sale financial assets)			
Change in fair value		(14,859)	2,413
Amount transferred to profit or loss		(264)	(360)
Tax related to gain/loss recognized under equity		3,024	(409)
Net change in fair value reserves		(12,099)	1,644
Other comprehensive income not being reclassified to profit or loss in subsequent periods			
Revaluation surplus on buildings		1,923	2,096
Tax related to gain/loss recognized under equity		(96)	(105)
Net change in revaluation on buildings		1,827	1,991
Actuarial gain/(loss)		1,089	(708)
Tax related to gain/loss recognized under equity		(217)	141
Net change in actuarial gain/(loss)		872	(567)
Other comprehensive income for the year, net of income tax		**(9,400)**	**3,068**
Total comprehensive income for the year		**(9,184)**	**5,296**
Attributable to:			
Equity holders of the Bank		**(9,184)**	**5,296**
Non-controlling interest		**-**	**-**

The accompanying policies and explanatory notes on pages 7 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015
(Currency – In thousands of Turkish Lira (TL))

	Notes	Share Capital	Adjustment to share capital	Share capital premium	Fair value Reserves	Revaluation surplus on buildings	Actuarial gain/(loss)	Legal reserves and retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2014		420,000	4,108	184	191	4,876	-	176,157	605,516	-	605,516
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	2,228	2,228	-	2,228
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	1,644	-	-	-	1,644	-	1,644
Revaluation surplus on buildings	10,19	-	-	-	-	1,991	-	-	1,991	-	1,991
Actuarial gain/(loss)	15,19	-	-	-	-	-	(567)	-	(567)	-	(567)
Total comprehensive income for the year		-	-	-	1,644	1,991	(567)	2,228	5,296	-	5,296
At 31 December 2014 / 1 January 2015		**420,000**	**4,108**	**184**	**1,835**	**6,867**	**(567)**	**178,385**	**610,812**	**-**	**610,812**
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	216	216	-	216
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	(12,099)	-	-	-	(12,099)	-	(12,099)
Revaluation surplus on buildings	10,19	-	-	-	-	1,827	-	-	1,827	-	1,827
Actuarial gain/(loss)	15,19	-	-	-	-	-	872	-	872	-	872
Total comprehensive income for the year		-	-	-	(12,099)	1,827	872	216	(9,184)	-	(9,184)
At 31 December 2015		**420,000**	**4,108**	**184**	**(10,264)**	**8,694**	**305**	**178,601**	**601,628**	**-**	**601,628**

The accompanying policies and explanatory notes on pages 7 to 67 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2015
(Currency – In thousands of Turkish Lira (TL))

	Notes	1 January – 31 December 2015	1 January – 31 December 2014
Cash flows from operating activities			
Interest received		344,825	343,903
Interest paid		(197,183)	(206,657)
Fees and commissions received		11,962	8,172
Income from banking services		11,727	13,351
Trading income		10,986	17,909
Fees and commissions paid		(5,719)	(4,924)
Cash payments related to employee benefits and similar items		(97,352)	(79,568)
Net cash paid for other operating activities		(42,842)	(52,743)
Income taxes paid		(777)	(1,595)
Cash flows from operating activities before changes in operating assets and liabilities		**35,627**	**37,848**
Changes in operating assets and liabilities			
Trading securities		2,429	(747)
Reserve deposits at Central Bank		(477,071)	16,103
Loans and advances		(1,339,573)	(24,454)
Other assets		7,074	(11,228)
Deposits from banks		(164,840)	164,858
Deposits from customers		(206,759)	(177,416)
Other money market deposits		453,675	(194,221)
Other liabilities		127,888	(3,070)
Net cash (used in) by operating activities		**(1,597,177)**	**(230,175)**
Cash flows from investing activities			
Purchases of available for sale securities		(1,111,835)	(70,706)
Proceeds from sale and redemption of available for sale securities		187,434	259,051
Proceeds from sale of assets to be disposed of		3,111	8,234
Purchases of property and equipment	10	(1,911)	(11,828)
Proceeds from the sale of property and equipment		4	137
Purchase of intangible assets	11	(120)	(687)
Net cash provided by / (used in) investing activities		**(923,317)**	**184,201**
Cash flows from financing activities			
Proceeds from funds borrowed	14	4,343,075	699,700
Repayments of funds borrowed	14	(1,543,716)	(692,818)
Net cash provided by financing activities		**2,799,359**	**6,882**
Effect of exchange rates on cash and cash equivalents		12,019	8,843
Net increase / (decrease) in cash and cash equivalents		326,511	7,599
Cash and cash equivalents at the beginning of year		386,179	378,580
Cash and cash equivalents at the end of year	6	**712,690**	**386,179**

The accompanying policies and explanatory notes on pages 7 to 67 form an integral part of these consolidated financial statements.

Index for notes to the consolidated financial statements

1. CORPORATE INFORMATION

General

"The Parent Bank", with the trade mark Tekstil Bankası A.Ş. was established on 24 September 1985, to carry out all types of banking activities according to the Banking Law and later changes in the laws and regulations, with the permission of the Council of Ministers in accordance with the resolution numbered 85/9890 and dated 29 April 1986 and started it operations on 13 October 1986. "Articles of Association" of the Parent Bank was published in Turkish Trade Registry Gazette no.1511, dated 9 May 1986. The statute of the Parent Bank was not changed since its establishment. Trade name of the Parent Bank has changed and registered on 13 November 2015 as ICBC Turkey Bank A.Ş.

The capital of the Parent Bank is TL 420,000 as at 31 December 2015 and is fully paid. The Parent Bank was incorporated by GSD Group until 21 May 2015. As at 29 April 2014, GSD Holding A.Ş., the major shareholder of the Parent Bank, has come to conclusion to sell 75.50% shares of the Parent Bank to Industrial and Commercial Bank of China (ICBC) and with respect to the sale transaction, it was declared to be approved by China Banking Regulatory Commission (CBRC) on 20 March 2015, and in Turkey, it was approved by Competition Authority in accordance with decision dated 20 August 2014 and numbered 14-29/593-259 and Banking Regulation and Supervision Agency (BRSA), in accordance with decision dated 2 April 2015 and numbered 6262.

Following the completion relevant permissions, on 28 April 2015 in the Public Disclosure Platform (KAP) with respect to the sale transaction Parent Bank appealed Extraordinary General Assembly on 22 May 2015 for approving the resigning of existing members of Board of Directors and selecting new members. Within the context of share purchase agreement 22 May 2015 date was defined as share transfer transaction date and the share transfer was carried out on the date and processed to the Bank's share ledger.

As a result of acquisition of shares representing 75.50% of Tekstil Bankası A.Ş. which is owned by GSD Holding A.Ş., an obligation occurs to propose take-over bids in order to purchase the shares of other shareholders in accordance with the provision of Article 11 of Take-Over Bids Communique numbered Serial II. 26.1 of Capital Markets Board of Turkey related to mandatory bid. In this context, share ownership of ICBC in Parent Bank has risen to 92.82% from 75.50% as a result of mandatory bid call transactions ending as of 14 August 2015 realized in accordance with the Take-Over Bids Communique numbered Serial II. 26.1 by ICBC which is controlling shareholder of Parent Bank.

The shares, except for the shares owned by ICBC, are traded at Istanbul Stock Exchange (BIST).

In the context of the decision taken at the Extraordinary General Meeting on 5 November 2015 the Parent Bank's trade title has been changed and registered as ICBC Turkey Bank A.Ş. on 13 November 2015 at the Trade Registry Gazette.

The registered office address of the Bank is located at Maslak Mahallesi Dereboyu/2 Caddesi, No. 13, Sarıyer 34398 Istanbul/Turkey.

Nature of Activities of the Bank / Group

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

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets.

(Currency – In thousands of Turkish Lira (TL))

1. CORPORATE INFORMATION (continued)

The information related to the subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2015 is as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding And Voting Rights (%)	
Tekstil Yatırım Menkul Değerler A.Ş. ("Tekstil Yatırım") (*)	Istanbul/Turkey	Brokerage	99.998	99.998
ICBC Turkey Portföy Yönetimi A.Ş. ("ICBC Portföy") (*)	Istanbul/Turkey	Portfolio Management	100.000	100.000

(*) Tekstil Yatırım participated in ICBC Turkey Portföy Yönetimi A.Ş. (ICBC Portföy) company with 100% share in April 2015.

As at 31 December 2015, the Bank has 44 branches located close to industrial zones of Turkey (2014 – 44 branches). As at 31 December 2015 and 2014, the number of employees are:

	2015	2014
The Bank	841	852
Subsidiaries	82	53
Total	**923**	**905**

The consolidated financial statements as at and for the year ended 31 December 2015 have been approved on 10 March 2016 by Gao Xiangyang, the Chief Executive Officer and by Gülden Akdemir, the Chief Financial Officer of ICBC Turkey Bank A.Ş.. Authorised boards of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of these financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared from statutory financial statements of the Bank and its subsidiaries in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the following material items in the statement of financial position which are measured at fair value:

- derivative financial instruments
- financial instruments at fair value through profit or loss
- available-for-sale financial instruments
- buildings recorded under property and equipment

The consolidated financial statements have been initially prepared in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" published in the Official Gazette no.26333 dated 1 November 2006 with regard to Banking Law No. 5411, and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations (all "Turkish Accounting Standards" or "TAS") put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). The subsidiaries maintain their books of accounts based on statutory rules and in accordance with Turkish Commercial Code, Capital Markets Board and Tax Regulations. Consolidated financial statements are derived from statutory financial statements with adjustments and reclassification for the purpose of fair presentation in accordance with IFRS.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional and Presentation Currency of the Bank and Its Subsidiary:

The Bank's, Tekstil Yatırım's, and ICBC Portföy's functional and presentation currency is TL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of TL. Turkish Kurus (Kr), which is used in presentation of earnings per share, equals 0.01 Turkish Lira.

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(a) Impairment of available-for-sale equity investments:

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry performance, changes in technology and operational and financing cash flows.

(b) Impairment on property and equipment:

After recognition, the Group assesses the recoverable amount of its property and equipment. At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The Group provides appraisal reports of property from third party appraisers commissioned by BRSA and Capital Markets Board for determination of fair values of property at the period ends.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant Accounting Judgments, Estimates and Assumptions (continued)

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

(a) Impairment Losses on Loans and Advances:

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectability are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the 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 trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

(b) Fair Values of Derivatives and Other Financial Instruments:

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 5.

(c) Income Taxes:

The Bank and its subsidiaries Tekstil Yatırım and ICBC Portföy are subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax provisions and deferred tax in the period in which such determination is made.

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.

(d) Employee Termination Benefits:

In accordance with existing social legislation, the Group 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 for these benefits, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2015 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2015. The effects of these standards and interpretations on the the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2015 are as follows:

IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendment did not have a significant impact on the consolidated financial statements of the Group.

Annual Improvements to IAS/IFRSs

In September 2014, POA issued the below amendments to the standards in relation to "Annual Improvements - 2010–2012 Cycle" and "Annual Improvements - 2011–2013 Cycle.

Annual Improvements - 2010–2012 Cycle

IFRS 2 Share-based Payment:

Definitions relating to performance and service conditions which are vesting conditions are clarified. The amendment is effective prospectively.

IFRS 3 Business Combinations

The amendment clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39 (or IFRS 9, as applicable). The amendment is effective for business combinations prospectively.

IFRS 8 Operating Segments

The changes are as follows: i) An entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows: i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment is effective retrospectively.

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is effective retrospectively.

Annual Improvements – 2011–2013 Cycle

IFRS 3 Business Combinations

The amendment clarifies that: i) Joint arrangements are outside the scope of IFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

IFRS 13 Fair Value Measurement

The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts within the scope of IAS 39 (or IFRS 9, as applicable). The amendment is effective prospectively.

IAS 40 Investment Property

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 in determining whether the transaction is the purchase of an asset or business combination. The amendment is effective prospectively. The amendments did not have a significant impact on the consolidated financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. These amendments are to be applied prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

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

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

In August 2014, IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:
• At cost
• In accordance with IFRS 9,
Or
• Using the equity method defined in IAS 28

The entity must apply the same accounting for each category of investments. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments must be applied retrospectively. Early application is permitted and must be disclosed. Early application is permitted and must be disclosed. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

In April 2015, amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

In February 2015, amendments issued to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments are applicable for annual periods beginning on or after 1 January 2016. Earlier application is permitted. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

In February 2015, amendments issued to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendments are applicable for annual periods beginning on or after 1 January 2016. These amendments are not expected have significant impact on the notes to the consolidated financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

Annual Improvements to IFRSs - 2012-2014 Cycle

In February 2015, IASB issued, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
- IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report
- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
- IAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 original effective date was 1 January 2017. However, in September 2015, IASB decided to defer the effective date to reporting periods beginning on or after 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IFRS 9 Financial Instruments - Final standard (2014)

In July 2014 the IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 16 Leases

In January 2016, the IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Company/Group applies this relief, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policy and Disclosures (continued)

IAS 7 'Statement of Cash Flows (Amendments)

In January 2016, the IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December 2015 and 2014.

Subsidiaries are controlled directly or indirectly by the Bank. Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Bank's returns.

Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Bank.

In the full consolidation method, 100% of subsidiary' assets, liabilities, income, expense and off-balance sheet items are combined with the Bank's assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group's investment in the subsidiary and the Group's portion of the cost value of the capital of the subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiary shall be identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group's income statement. The Group has non-controlling interests due its subsidiary Tekstil Yatırım's minor shareholders (0.002% share) whose interests are immaterial to be presented in the consolidated financial statements.

Accounting policies of subsidiary has been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of financial position. All differences are taken to the profit or loss.

(Currency – In thousands of Turkish Lira (TL))

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign Currency Translation (continued)

Foreign currency translation rates for major currencies used by the Group as at respective year-ends are as follows:

	Euro / TL (full)	US Dollar / TL (full)
31 December 2013	2.9365	2.1343
31 December 2014	2.8207	2.3189
31 December 2015	3.1776	2.9076

2.6 Property and Equipment

Owned Assets

The cost of the property and equipment purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to International Accounting Standards ("IAS") 29. The property and equipment purchased after this date are recorded at their historical costs. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses, if any except for buildings. Where the carrying amount of an asset is greater than its estimated recoverable amount ("higher of net realizable value and value in use"), it is written down immediately to its recoverable amount. Buildings are recorded at the fair value and the amounts over carrying value of the buildings are recorded as revaluation surplus under the shareholders' equity. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Property and equipment acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the consolidated income statement.

Subsequent Expenditures

Expenditures incurred to replace a component of a property and equipment that is accounted for separately, and major inspection and overhaul costs, are capitalized. Expenditures for major renewals and improvement of property and equipment are capitalized and depreciated over the remaining useful lives of the related assets. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are reflected as expense in the consolidated income statement as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property and Equipment (continued)

Depreciation

Property and equipment are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition.

The estimated useful lives are as follows:

Buildings	50 years
Furniture and fixtures	3 – 50 years
Leasehold improvements	Minimum of lease period or useful life

Gains and losses on disposal of property, plant and equipment are determined by comparing net proceeds with the carrying amount and recognized in other income/expense in the income statement.

Leasehold improvements comprise primarily capitalized head quarter and branch refurbishment costs.

2.7 Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

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

2.8 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held to maturity financial assets. 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. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Investment Securities and Other Financial Assets (continued)

Financial Assets at Fair Value through Profit or Loss

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

Loans and Receivables

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

Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial recognition, available for sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated on available for sale financial assets using effective interest method is reported as interest income, and dividends are included in dividend income when the entity's right to receive payment is established.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the date of the statement of financial position. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used.

Held to Maturity Financial Assets

The Group has no financial assets classified as held to maturity as at 31 December 2015 and 2014.

2. SIGNIFICANT ACCOUNTING POLICIES (continued

2.9 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are classified in the consolidated financial statements within the security portfolio they belong to. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

2.10 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.11 Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its consolidated statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, that are recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with original maturities of three months or less.

2.13 Impairment of Financial Assets

Assets Carried at Amortized Cost

The Group assesses at each date of statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data coming to the attention of the Group about the following loss events:

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets (continued)

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement 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 trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available for Sale Financial Assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated income statement.

2.14 Interest Bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the amortization process.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Employee Benefits

(a) Reserve for employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

In addition, in accordance with existing social legislation in Turkey, the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(b) 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 recognised 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.

Short term employee benefits include vacation pay liability. In Turkey, according to the legislation, the employer has to make payments for unused vacation days when the personnel leave the company. Vacation pay liability is the undiscounted amount calculated over the unused vacation days of the employee.

(c) Defined contribution plans

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognised as an employee benefit expense when they are accrued.

2.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Leases

The Group as Lessee

Finance Leases

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

Capitalized leased assets are depreciated over the estimated useful lives of the assets.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight-line basis over the lease term.

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

2.18 Income and Expense Recognition

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

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

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

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and dividends.

Dividends are recognized when the shareholders’ right to receive the payments is established.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Income Tax

Tax expense (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the date of financial position.

Deferred Tax

Deferred tax is recognized 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 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 against current tax assets, and they relate to 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 deferred tax asset is recognized for unused tax losses, 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 utilized. 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 realized.

Income tax relating to items recognized directly in equity is recognized in equity.

2.20 Derivative Financial Instruments

The Group enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group'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 at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the consolidated income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Derivative Financial Instruments (continued)

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract is accounted for under IAS 39 if it is a financial instrument and in accordance with other appropriate standards if it is not a financial instrument. When the host contract and embedded derivative are closely related, embedded derivatives are not separated from the host contract and accounted according to the standard applied to the host contract.

2.21 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.

2.22 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 management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2.23 Comparatives

The accompanying financial statements are presented comparatively to determine the tendency in the financial position, performance and cash flows of the Company. If the presentation and reclassification of the financial statement items change, the prior year financial statements are reclassified accordingly to conform to the current year's presentation and the restatement is explained in the notes.

2.24 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(Currency – In thousands of Turkish Lira (TL))

3. SEGMENT INFORMATION

Operating Segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations in each of the Group's reportable segments:

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers.
- *Corporate & SME Banking* — Includes loans, deposits and other transactions and balances with corporate and SME customers.
- *Other Operations* — Includes funds management and treasury activities.

Segment information at and for the year ended 31 December 2015 is as follows:

	Retail Banking	Corporate, Commercial & SME Banking	Treasury and other Operations	Total
Operating income	29,789	63,893	79,855	**173,537**
Operating expenses	(33,652)	(86,000)	(52,324)	**(171,976)**
Income/loss from operations	**(3,863)**	**(22,107)**	**27,531**	**1,561**
Taxation charge	-	-	(1,345)	**(1,345)**
Net income for the period	**(3,863)**	**(22,107)**	**26,186**	**216**
Assets and Liabilities				
Segment assets	502,690	3,628,407	2,513,029	**6,644,126**
Total assets	**502,690**	**3,628,407**	**2,513,029**	**6,644,126**
Segment liabilities	1,398,918	784,728	3,858,852	**6,042,498**
Shareholders' equity	-	-	601,628	**601,628**
Total liabilities and shareholders' equity	**1,398,918**	**784,728**	**4,460,480**	**6,644,126**
Other segment information				
Capital expenditure	-	-	2,031	2,031
Depreciation and amortization	262	514	3,423	4,199
Impairment losses on assets to be disposed of	-	-	54	54

(Currency – In thousands of Turkish Lira (TL))

3. SEGMENT INFORMATION (continued)

Segment information at and for the year ended 31 December 2014 is as follows:

	Retail Banking	Corporate, Commercial & SME Banking	Treasury and other Operations	Total
Operating income	16,328	53,902	73,407	**143,637**
Operating expenses	(29,233)	(79,153)	(32,309)	**(140,695)**
Income/loss from operations	**(12,905)**	**(25,251)**	**41,098**	**2,942**
Taxation charge	-	-	(714)	**(714)**
Net income for the period	**(12,905)**	**(25,251)**	**40,384**	**2,228**
Assets and Liabilities				
Segment assets	400,147	2,442,547	789,744	**3,632,438**
Total assets	**400,147**	**2,442,547**	**789,744**	**3,632,438**
Segment liabilities	1,457,810	924,215	639,601	**3,021,626**
Shareholders’ equity	-	-	610,812	**610,812**
Total liabilities and shareholders’ equity	**1,457,810**	**924,215**	**1,250,413**	**3,632,438**
Other segment information				
Capital expenditure	-	-	12,515	12,515
Depreciation and amortization	257	488	3,083	3,828
Impairment losses on assets to be disposed of	-	-	176	176

4. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board of Directors is assigned as Risk Supervisor who heads the Risk Management Group. The Risk Management Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Risk Management Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Risk Management Group reviews the latest figures and projections for the Bank's profit and loss accounts and statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

4. FINANCIAL RISK MANAGEMENT (continued)

Audit Committee

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- the supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- the preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- the maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports these control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically concerning several criteria such as financial power of customers, business capacity, industry, geographical segment and equity structure and with taking notice of the financial statements of the debtors obtained thoroughly to be audited in accordance with the relevant legislation.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity is performed daily. The risk concentration of the off-balance sheet transactions is followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Exposure to credit risk:

	31 December 2015				31 December 2014			
	Loans to customers	**Balances with Central Bank**	**Due from banks (**)**	**Investment securities**	**Loans to customers**	**Balances with Central Bank**	**Due from banks (**)**	**Investment securities**
Assets amortised at cost								
Individually impaired								
Loans and receivables with limited collectibility	12,128	-	-	-	16,789	-	-	-
Loans and receivables with doubtful collectibility	27,483	-	-	-	32,550	-	-	-
Uncollectible loans and receivables	140,980	-	-	-	108,873	-	-	-
Gross Amount	180,591	-	-	-	158,212	-	-	-
Allowance for individual impairment	(134,706)	-	-	-	(110,647)	-	-	-
Carrying amount	**45,885**	**-**	**-**	**-**	**47,565**	**-**	**-**	**-**
Loans with renegotiated terms	27,233	-	-	-	31,291	-	-	-
Carrying amount	**27,233**	**-**	**-**	**-**	**31,291**	**-**	**-**	**-**
Past due but not impaired								
High and standard grade	15,529	-	-	-	15,471	-	-	-
Closely monitored	21,177	-	-	-	24,922	-	-	-
Carrying amount	**36,706**	**-**	**-**	**-**	**40,393**	**-**	**-**	**-**
Neither past due not impaired								
High and standard grade	3,998,493	910,472	377,426	-	2,679,823	317,837	169,665	-
Closely monitored	42,303	-	-	-	13,846	-	-	-
Carrying amount	**4,040,796**	**910,472**	**377,426**	**-**	**2,693,669**	**317,837**	**169,665**	**-**
Collective allowance for impairment	(32,620)	-	-	-	(39,924)	-	-	-
Carrying amount	**(32,620)**		**-**	**-**	**(39,924)**	**-**	**-**	**-**
Available for sale assets								
Individually impaired	-	-	-	-	-	-	-	-
Allowance for impairment	-	-	-	-	-	-	-	-
Neither past due nor impaired (*)	-	-	-	1,086,294	-	-	-	203,567
Carrying amount	**-**	**-**	**-**	**1,086,294**	**-**	**-**	**-**	**203,567**
Total carrying amount	**4,118,000**	**910,472**	**377,426**	**1,086,294**	**2,772,994**	**317,837**	**169,665**	**203,567**

(*) Excluding equity securities

(**) Including deposits from bank, cash collateral on reverse purchase agreements and money market placements

The above table represents the credit risk exposure of the Group at 31 December 2015 and 2014, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off with the approval of the Board of Directors after all the necessary procedures have been completed and the amount of the loss has been determined.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk extent.

	Loans and advances to customers	
31 December 2015	**Gross**	**Net**
Loans and Receivables with Limited Collectability	12,128	10,537
Loans and Receivables with Doubtful Collectability	27,483	13,445
Uncollectible Loans and Receivables	140,980	21,903
Total	**180,591**	**45,885**
31 December 2014	**Gross**	**Net**
Loans and Receivables with Limited Collectibility	16,789	12,358
Loans and Receivables with Doubtful Collectibility	32,550	14,067
Uncollectible Loans and Receivables	108,873	21,140
Total	**158,212**	**47,565**

As at 31 December 2015 and 2014, the Group has no allowance for other assets such as loans and advances to banks, money market placements and marketable securities. As at 31 December 2015 the Group has provided TL 161 (2014 – TL 661) impairment for 'assets to be disposed of' recorded under other assets.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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

Cash Loans	**31 December 2015**	**31 December 2014**
Secured loans:	3,398,351	2,277,994
Secured by mortgages	604,582	547,657
Secured by cash collateral	1,123,196	99,768
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,670,573	1,630,569
Unsecured loans	706,384	487,359
Impaired loans, net	13,265	7,641
Total	**4,118,000**	**2,772,994**

Non-cash Loans	**31 December 2015**	**31 December 2014**
Secured loans:	546,839	620,366
Secured by mortgages	16,620	25,850
Secured by cash collateral	76,632	9,345
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	453,587	585,171
Unsecured loans	184,495	229,211
Total	**731,334**	**849,577**

The breakdown of non-performing loans and receivables based on the types of colletarals held against them is as follows:

	31 December 2015	**31 December 2014**
Secured by mortgages	41,547	37,312
Pledge on vehicles and other collateral	4,114	4,115
Unsecured	134,930	116,785
Total	**180,591**	**158,212**

The collateral amounts on the table above represent the minimum of the fair value of the collateral or the amount of non-performing loan against which the collateral acquired.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. Industry exposure information of biggest ten business sector for aggregate cash loans and non-cash loans is as follows:

	31 December 2015		**31 December 2014**	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Finance	1,092,489	138,432	390,480	85,898
Transportation, warehousing and communication	674,758	5,510	73,903	7,118
Wholesale and retail commerce and motor vehicle services	447,408	106,232	220,975	52,284
Construction	354,563	186,000	395,945	281,448
Agriculture, fishing and forestry	183,524	4,533	96,748	38,930
Food and beverages and tobacco	164,987	15,817	113,332	37,940
Mining and stone pits	143,097	28,403	166,789	18,740
Iron steel and metal processing	115,788	39,384	132,395	27,139
Textile, Fabrics and Yarn Industry	82,639	21,708	134,442	59,411
Chemical Industry	70,639	33,198	100,133	34,235
Others	224,917	152,117	528,148	206,434
Corporate loans	3,554,809	731,334	2,353,290	849,577
Consumer loans and credit cards	487,677	-	379,265	-
Specialized loans	6,697	-	14,422	-
Investment loans	55,552	-	18,376	-
Loans in arrears	180,591	-	158,212	-
Provision for possible loan losses	(167,326)	-	(150,571)	-
Total	**4,118,000**	**731,334**	**2,772,994**	**849,577**

Breakdown of non-performing loans is shown below:

	31 December 2015	**31 December 2014**
Corporate loans	156,306	138,660
Consumer loans	15,448	11,028
Credit cards	7,330	6,828
Specialized loans	503	536
Investment loans	1,004	1,160
Total non-performing loans	**180,591**	**158,212**

The Group’s activities are mainly concentrated in Turkey. As at 31 December 2015, 74% of cash loan portfolio including non-performing loans are granted in Turkey (2014 – 99% in Turkey). Regarding foreign lending, the Group has a structure evaluating the country and market risks of the countries of counterparties. Besides, the outstanding foreign loan transactions of the Group are majorly loans given against cash collateral.

As at 31 December 2015, the share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 68% (2014 – 47%).

As at 31 December 2015, the share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 82% (2014 – 74%).

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the BIST (Borsa Istanbul) Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the statement of financial position, the maximum limits have been set by the Board of Directors.

The Parent Bank diversifies its funding with steady deposit base and medium/long-term funds borrowed from international institutions which are mainly placed in interest earning assets. Deposits are obtained from individuals and corporate/commercial entities. The portion of saving deposits over total deposits is 65% as at 31 December 2015 (2014 – 62%). The Parent Bank performs customer concentration analysis on a branch basis and takes short and long term actions to disseminate customers in the branches with concentration risk. Funds borrowed account consists of funds with different characteristics and maturity-interest structures and are provided from different reputable institutions.

Residual contractual maturities of financial liabilities:

31 December 2015	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Due to banks	37	37	37	-	-	-	-	-
Deposits	2,134,512	2,142,333	454,939	1,043,978	622,838	20,578	-	-
Other money market deposits	518,817	521,769	-	369,273	-	152,496	-	-
Funds borrowed	3,155,498	3,181,258	-	349,032	449,879	2,380,625	1,722	-
Total	**5,808,864**	**5,845,397**	**454,976**	**1,762,283**	**1,072,717**	**2,553,699**	**1,722**	**-**
Non-cash loans (*)	**731,334**	**731,334**	**295,767**	**57,634**	**49,315**	**182,647**	**137,479**	**8,492**

31 December 2014	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Due from banks	165,027	165,059	30	165,029	-	-	-	-
Deposits	2,342,233	2,352,560	139,384	1,515,941	670,246	26,966	23	-
Other money market deposits	64,359	64,457	-	64,457	-	-	-	-
Funds borrowed	348,103	351,302	-	59,603	110,046	181,653	-	-
Total	**2,919,722**	**2,933,378**	**139,414**	**1,805,030**	**780,292**	**208,619**	**23**	**-**
Non-cash loans (*)	**849,577**	**849,577**	**343,515**	**78,001**	**97,179**	**248,605**	**81,220**	**1,057**

(*) The letter of guarantees without a defined maturity date due to their business nature are presented at demand column.

(**) The contractual maturity distribution of derivative contracts are presented in Note 17.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

	On Demand	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 Months	1 to 5 Years	Over 5 Years	Unallocated	Total
As at 31 December 2015									
Assets									
Cash and balances with Central Bank	336,488	609,051	-	-	-	-	-	-	945,539
Due from banks	20,183	280,212	-	-	-	-	-	-	300,395
Money market placements	-	77,031	-	-	-	-	-	-	77,031
Trading securities	18	-	-	-	-	-	-	-	18
Derivative financial instruments		215	24	-	-	-	-	-	239
Loans and advances	-	429,402	349,926	303,836	565,466	1,894,917	561,188	13,265	4,118,000
Investment securities	160	1,037	111,584	9,012	70,914	824,120	69,627	-	1,086,454
Property and equipment	-	-	-	-	-	-	-	26,687	26,687
Intangible assets	-	-	-	-	-	-	-	1,496	1,496
Deferred tax assets	-	-	-	-	-	-	13,557	-	13,557
Other assets	-	62,514	862	497	249	23	-	10,565	74,710
Total assets	**356,849**	**1,459,462**	**462,396**	**313,345**	**636,629**	**2,719,060**	**644,372**	**52,013**	**6,644,126**
Liabilities									
Due to banks	37	-	-	-	-	-	-	-	37
Deposits from customers	454,939	1,052,991	606,192	11,146	9,244	-	-	-	2,134,512
Other money market deposits	-	368,915	-	-	149,902	-	-	-	518,817
Derivative financial instruments	-	4,256	-	-	-	-	-	-	4,256
Funds borrowed	-	348,929	449,209	859,034	1,496,635	1,691	-	-	3,155,498
Provisions	-	-	-	-	-	-	-	12,495	12,495
Employee benefits	-	-	-	-	-	-	-	11,869	11,869
Other liabilities	126,633	75,701	2,557	-	-	123	-	-	205,014
Total liabilities	**581,609**	**1,850,792**	**1,057,958**	**870,180**	**1,655,781**	**1,814**	**-**	**24,364**	**6,042,498**
Net liquidity gap	**(224,760)**	**(391,330)**	**(595,562)**	**(556,835)**	**(1,019,152)**	**2,717,246**	**644,372**	**27,649**	**601,628**
As at 31 December 2014									
Total assets	**223,569**	**1,051,716**	**500,757**	**457,361**	**599,850**	**589,852**	**161,344**	**47,989**	**3,632,438**
Total liabilities	**148,219**	**1,866,624**	**780,134**	**125,731**	**79,856**	**20**	**131**	**20,911**	**3,021,626**
Net liquidity gap	**75,350**	**(814,908)**	**(279,377)**	**331,630**	**519,994**	**589,832**	**161,213**	**27,078**	**610,812**

The liquidity analysis of the derivative transactions are presented in "Note 17. Derivatives" section.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

As per the Banking Regulation and Supervision Agency's (BRSA) Communiqué "Regulation on Liquidity Coverage Ratio Calculation" published on the Official Gazette no.28948 dated 21 March 2014 and became effective starting from 1 January 2015, liquidity coverage ratios calculated weekly on bank only basis and monthly on consolidated basis are subject to regulatory reporting. Liquidity coverage ratios for foreign currency assets/liabilities and total assets/liabilities should be minimum 40% and 60%, respectively. The Group's consolidated liquidity coverage ratios for 2015 and 2014 are as follows:

Liquidity Coverage Ratios	FC Liquidity Coverage Ratio	Total Liquidity Coverage Ratio
31 December 2015	423.0	246.4
Average (%)	245.5	133.0
Max. (%)	439.7	246.4
Min. (%)	99.4	77.6

Liquidity Coverage Ratios	FC Liquidity Coverage Ratio	Total Liquidity Coverage Ratio
31 December 2014	113.7	91.2
Average (%)	114.1	66.2
Max. (%)	138.2	91.2
Min. (%)	77.4	52.3

Market Risk

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "position risk of equity securities" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the amount, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Method, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results are reported to the Senior Level Risk Committee and ALCO in regular periods. By regarding the VaR results, the risk of maturity mismatch is examined in the ALCO and the necessary measures are taken by the ALCO.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Standard method defined in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in Official Gazette no. 29111 dated 6 September 2014 is used in calculating the market risk. The criteria for the standard method have been set by the BRSA via section 2 of "Calculation of Market Risk" and "Communiqué on Capital Requirement Calculation for Market Risk arising from Options". Consolidated and bank only market risk is reported to BRSA on a monthly basis. The consolidated value at market risks calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes are as follows:

	2015			
	As at 31 December 2015	**Average**	**Highest**	**Lowest**
Interest rate risk	29	476	1,225	29
Equity securities risk (*)	107	232	977	6
Currency risk	996	425	1,980	34
Settlement risk	-	1	8	-
Option risk	-	1	6	-
Counterparty credit risk (**)	657	816	1,795	175
Total value at risk (***)	**22,363**	**24,375**	**51,675**	**10,163**

	2014			
	As at 31 December 2014	**Average**	**Highest**	**Lowest**
Interest rate risk	452	537	953	421
Equity securities risk (*)	651	568	651	339
Currency risk	64	95	126	43
Settlement risk	-	-	-	-
Option risk	-	3	10	-
Counterparty credit risk (**)	349	241	473	157
Total value at risk (***)	**18,950**	**18,047**	**22,750**	**14,288**

(*) VaR for mutual funds in trading securities are included here.

(**) Represents counterparty credit risk for only trading accounts.

(***) The minimum and maximum values of Total VaR represent the minimum and maximum values of quarter-end (month-end beginning from July 2014) calculated total VaRs, and are not related to the aggregate of the components of them stated in the table.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net position in foreign currencies, mostly in US Dollar and Euro.

The Group's foreign currency position risk is measured by "Standard Method" and Internal Models.

The concentrations of assets, liabilities and off balance sheet items are as follows:

	Turkish Lira	US Dollars	Euro	Others	Total
As at 31 December 2015					
Assets					
Cash and balances with Central Bank (**)	37,466	850,894	6,795	50,384	945,539
Due from banks	10,208	270,407	17,022	2,758	300,395
Money market placements	77,031	-	-	-	77,031
Trading securities	18	-	-	-	18
Loans and advances	2,043,856	1,728,127	320,785	25,232	4,118,000
Investment securities	269,936	816,518	-	-	1,086,454
Property and equipment	26,687	-	-	-	26,687
Intangible assets	1,496	-	-	-	1,496
Deferred tax asset	13,557	-	-	-	13,557
Other assets	63,745	8,197	2,768	-	74,710
Total assets (*)	**2,544,000**	**3,674,143**	**347,370**	**78,374**	**6,643,887**
Liabilities					
Due to banks	36	-	1	-	37
Deposits	982,476	878,970	261,280	11,786	2,134,512
Other money market deposits	108,043	410,774	-	-	518,817
Funds borrowed	22,345	3,043,206	72,929	17,018	3,155,498
Other liabilities	140,984	7,311	56,635	84	205,014
Provisions	24,364	-	-	-	24,364
Total liabilities (*)	**1,278,248**	**4,340,261**	**390,845**	**28,888**	**6,038,242**
Net on-balance sheet position	**1,265,752**	**(666,118)**	**(43,475)**	**49,486**	**605,645**
Off-balance sheet position					
Net notional amount of derivatives (***)	(656,287)	654,283	42,897	(48,728)	(7,835)
Net Position	**609,465**	**(11,835)**	**(578)**	**758**	**597,810**
As at 31 December 2014					
Total assets (*)	**2,624,810**	**791,097**	**154,265**	**49,481**	**3,619,653**
Total liabilities (*)	**1,547,938**	**983,125**	**474,381**	**10,447**	**3,015,891**
Net on-balance sheet position	**1,076,872**	**(192,028)**	**(320,116)**	**39,034**	**603,762**
Off-balance sheet position	(466,655)	191,451	320,240	(39,123)	5,913
Net Position	**610,217**	**(577)**	**124**	**(89)**	**609,675**

(*) The amounts recorded as derivative financial instruments on asset and liability sides are not included above.

(**) As at 31 December 2015, precious metal amounting to TL 49,419 standing in Central Bank of Turkey accounts is consolidated in Others column above (2014 – TL 44,108).

(***) As at 31 December 2015, precious metal swap sales transactions amounting to TL 49,419 is consolidated in Others column above (2014 – TL 22,054 purchase and TL 66,162 sales transactions).

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at 31 December 2015 and 2014 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2015		31 December 2014	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	(152)	(1.184)	(58)	(58)
Euro	(58)	(58)	12	12
Other currencies	76	76	(9)	(9)
Total, net	**(134)**	**(1.166)**	**(55)**	**(55)**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

Cash Flow and Fair Value Interest Rate Risk

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the date of statement of financial position to the re-pricing date:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2015								
Assets								
Cash and balances with central banks	-	860,947	-	-	-	-	84,592	945,539
Due from banks	280,212	-	-	-	-	-	20,183	300,395
Money market placements	77,031	-	-	-	-	-	-	77,031
Trading securities	-	-	-	-	-	-	18	18
Derivative financial instruments	215	24	-	-	-	-	-	239
Loans and advances	792,482	299,516	722,485	444,052	1,368,486	477,714	13,265	4,118,000
Investment securities	47,904	140,391	9,070	70,913	767,968	50,048	160	1,086,454
Total financial assets	1,197,844	1,300,878	731,555	514,965	2,136,454	527,762	118,218	6,527,676
Property and equipment	-	-	-	-	-	-	26,687	26,687
Intangible assets	-	-	-	-	-	-	1,496	1,496
Deferred tax asset	-	-	-	-	-	-	13,557	13,557
Other assets	-	-	-	-	-	-	74,498	74,498
Total assets	**1,197,844**	**1,300,878**	**731,555**	**514,965**	**2,136,454**	**527,762**	**234,668**	**6,644,126**
Liabilities								
Due to banks	-	-	-	-	-	-	37	37
Deposits	1,052,991	606,192	11,146	9,244	-	-	454,939	2,134,512
Other money market deposits	368,915	-	-	149,902	-	-	-	518,817
Derivative financial instruments	4,256	-	-	-	-	-	-	4,256
Funds borrowed	348,929	449,209	859,034	1,496,635	1,691	-	-	3,155,498
Other liabilities	-	-	-	-	-	-	205,014	205,014
Provisions and employee benefits	-	-	-	-	-	-	24,364	24,364
Total liabilities	**1,775,091**	**1,055,401**	**870,180**	**1,655,781**	**1,691**	**-**	**684,354**	**6,042,498**
Interest sensitivity gap	**(577,247)**	**245,477**	**(138,625)**	**(1,140,816)**	**2,134,763**	**527,762**	**(449,686)**	**601,628**
As at 31 December 2014								
Total assets	**1,567,422**	**393,957**	**212,893**	**333,526**	**535,330**	**132,103**	**457,207**	**3,632,438**
Total liabilities	**1,802,985**	**777,458**	**125,737**	**79,862**	**1**	**-**	**235,583**	**3,021,626**
Interest sensitivity gap	**(235,563)**	**(383,501)**	**87,156**	**253,664**	**535,329**	**132,103**	**221,624**	**610,812**

The following table indicates the effective interest rates by major currencies for the major components of the statement of financial position as at 31 December 2015 and 2014:

31 December 2015	**EURO %**	**USD %**	**TL %**
Cash and Balances with the Central Bank of Turkey	-	0.30	5.39
Due from banks	0.05	0.70	13.03
Money Market Placements	-	-	15.81
Investment Securities	-	4.31	10.39
Loans	4.01	3.82	13.96
Due to banks	-	-	-
Deposits	1.43	2.03	12.25
Obligations under repurchase agreements	-	1.81	8.24
Funds Borrowed	1.19	1.36	6.64

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

31 December 2014	EURO %	USD %	TL %
Cash and balances with Central Bank	-	-	1.51
Due from banks	-	0.40	11.45
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	11.88
Money market placements	-	-	11.63
Loans and advances to customers	5.15	5.40	12.43
Investment securities	-	5.83	11.41
Due to banks	0.99	1.51	-
Deposits	2.17	2.36	10.74
Obligations under repurchase agreements	-	-	8.69
Funds borrowed	1.75	1.65	7.25

In accordance with the BRSA's "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", published in the Official Gazette numbered 28034 and dated 23 August 2011, the interest rate risk of the banking book items (items other than trading accounts) is measured and reported monthly to BRSA. The interest rate risks of financial instruments on trading portfolio are considered within the scope of the market risk.

In accordance with the "Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method", for unconsolidated statutory accounts of the Parent Bank, economic valuation differences arising from fluctuations in interest rates, in different currencies are presented in the table below (excluding tax effect) as of 31 December 2015 and 2014.

31 December 2015	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses/Equity)
TL	500	(66,539)	(10.9%)
	(400)	61,869	10.1%
Euro	200	(2,634)	(0.4%)
	(200)	1	0.0%
US Dollar	200	(95,754)	(15.6%)
	(200)	111,503	18.2%
Total (of negative shocks)		**173,373**	**28.3%**
Total (of positive shocks)		**(164,927)**	**(26.9%)**

31 December 2014	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses/Equity)
TL	500	(36,517)	%(5.8)
	(400)	33,591	%5.4
Euro	200	(756)	%(0.1)
	(200)	302	%0.0
US Dollar	200	(5,943)	%(1.0)
	(200)	5,902	%0.9
Total (of negative shocks)		**39,795**	**%6.3**
Total (of positive shocks)		**(43,216)**	**%(6.9)**

4. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

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

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of the Operational Risk" of the circular, "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette numbered 29111 and dated 6 September 2014, using gross profit of the last three years 2012, 2013 and 2014 by using "Basic Indicator Approach" method. Value at operational risk, used in calculation of capital adequacy ratio, is amounting to TL 314,453. The 8% of VaR; TL 25,156 as at 31 December 2015 represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

Capital Adequacy

BRSA sets and monitors capital requirements for the Bank both on unconsolidated and consolidated basis. Additionally, the consolidated subsidiaries; Tekstil Yatırım and ICBC Portföy are supervised by Turkish Capital Market Board regarding capital adequacy ratios and related calculations.

Capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette numbered 29111 dated 6 September 2014, "Communiqué on Capital Requirement Calculation for Market Risk of Options" published in the Official Gazette numbered 28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette numbered 28756 dated 5 September 2013.

In the calculation of consolidated capital adequacy standard ratio, the accounts and transactions are evaluated by taking into account the relevant legislation. Accounts and transactions are classified in two separate portfolio as "trading accounts" and "banking accounts" and are used in the calculation of market and credit risks. Trading accounts and items deducted from the capital are not considered in the calculation of credit risks. In the calculation of risk weighted assets, amortized and impaired assets are accounted by net amounts after deducting the related amortization and provision amounts.

In the calculation of the amount subject to credit risk, the Group assesses its loans and receivables by taking the risk classes, rating notes and risk mitigation into consideration. "Simple financial collateral method" is used for banking accounts while "comprehensive financial collateral method" is used for trading accounts for taking risk mitigation elements into consideration.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy (continued)

Counterparty Credit Risk is calculated for derivative transactions, repo transactions, security-stock lending transactions, overdraft security transactions and long term trade transactions.

In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, fair value reserve relating to unrealized gains on securities classified as available-for-sale, revaluation surplus on buildings, actuarial gain/losses and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general loan loss provision calculated and recorded in accordance with BRSA standards.

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 impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

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

The regulatory capital and the capital adequacy ratio declared by the Bank as at 31 December 2015 are as follows:

31 December 2015	**Consolidated**	**Bank Only**
Amount subject to credit risk (I)	4,151,985	4,140,270
Amount subject to market risk (II)	22,363	21,525
Amount subject to operational risk (III)	314,453	298,419
Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)	**4,488,801**	**4,460,214**
Tier 1 Capital	589,961	582,509
Tier 2 Capital	30,530	30,530
Deductions from Capital (*)	(43,332)	(42,816)
Total Regulatory Capital	577,159	570,223
Total regulatory capital expressed as a percentage of total risk-weighted assets and value at risks	**12.86%**	**12.78%**

(*) It includes the amount deducted from capital at an amount of TL 42,918 sourcing from exceeding the determined maximum ratio two times in one year in scope of article 5 "Incompatibility with Rational Limits" of Regulation on Measurement and Evaluation of Interest Rate Sourcing From Banking Accounts through Standard Shock Method" published in Official Gazette dated August 23, 2011 and numbered 28034.

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

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 (i.e. an exit price). The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		**Fair value**	
31 December	**2015**	**2014**	**2015**	**2014**
Financial assets				
Due from banks	300,395	83,639	300,395	83,639
Cash collateral on securities borrowed and reverse repurchase agreements	-	75,023	-	75,023
Money market placements	77,031	11,003	77,031	11,003
Loans and advances	4,118,000	2,772,994	4,088,812	2,779,632
	4,495,426	**2,942,659**	**4,466,238**	**2,949,297**
Financial liabilities				
Due to banks	37	165,027	37	165,027
Deposits	2,134,512	2,342,233	2,135,544	2,342,968
Funds borrowed	3,155,498	348,103	3,163,031	348,651
	5,290,047	**2,855,363**	**5,298,612**	**2,856,646**

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments that are carried at amortized cost:

Deposits with other banks and financial institutions and money market receivables

Fair values of deposits with other banks and financial institutions and money market receivables are considered to approximate their respective carrying values due to their short-term nature.

Loans and Advances

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value.

Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

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

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as at 31 December 2015 and 2014, is given in the tables below:

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Equity securities	18	-	-	18
Investment securities - available for sale				
Equity securities	-	-	160	160
Turkish government bonds	269,776	-	-	269,776
Eurobonds issued by the Turkish government	284,231	-	-	284,231
Other debt securities	-	532,287	-	532,287
Derivative financial instruments	-	239	-	239
Total assets carried at fair value	**554,025**	**532,526**	**160**	**1,086,711**
Derivative financial instruments		4,256		4,256
Total liabilities carried at fair value	**-**	**4,256**	**-**	**4,256**

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Eurobonds issued by the Turkish government	425	-	-	425
Equity securities	36	-	-	36
Other securities	-	2,017	-	2,017
Investment securities - available for sale				
Equity securities	-	-	160	160
Turkish government bonds	199,370	-	-	199,370
Eurobonds issued by the Turkish government	33	-	-	33
Other debt securities	-	-	4,164	4,164
Derivative financial instruments	-	12,785	-	12,785
Total assets carried at fair value	**199,864**	**14,802**	**4,324**	**218,990**
Derivative financial instruments	-	5,735	-	5,735
Total liabilities carried at fair value	**-**	**5,735**	**-**	**5,735**

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy (continued)

The following table shows a reconciliation of the fair value measurements of financial assets in Level 3 of the fair value hierarchy for the years 2015 and 2014.

Available-for-sale securities	**2015**	**2014**
Balance at 1 January	4,324	6,785
Additions	-	-
Disposals	(4,164)	(2,774)
Foreign exchange differences	-	313
Balance at 31 December	**160**	**4,324**

There are no transfers between the first and the second levels in the current year.

The buildings recorded under property and equipment on the statement of financial position are carried at fair value. Such fair value measurement includes inputs of Level 3 of the fair value hierarchy. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

6. CASH AND CASH EQUIVALENTS

	31 December 2015	**31 December 2014**
Cash on hand	35,067	30,753
Balances with Central Bank	910,472	317,837
Cash and balances with central banks	**945,539**	**348,590**
Due from banks	**300,395**	**83,639**
Cash collateral on securities borrowed and reverse repurchase agreements	**-**	**75,023**
Money market receivables	**77,031**	**11,003**
Cash and cash equivalents in the statement of financial position	**1,322,965**	**518,255**
Less: Income accrual	(1,224)	(96)
Less: Reserve deposits at Central Bank	(609,051)	(131,980)
Cash and cash equivalents in the statement of cash flows	**712,690**	**386,179**

As at 31 December 2015 and 2014, deposits and placements are as follows:

	31 December 2015				**31 December 2014**			
	Amount		**Effective interest rate (%)**		**Amount**		**Effective interest rate (%)**	
	Turkish Lira	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**
Balances with Central Bank	21,367	889,105	0.3	5.4	28,203	289,634	1.5	-
Due from banks	10,208	290,187	12.3	0.1 - 0.9	38,321	45,318	10.5 – 11.5	0.1 – 0.5
Cash collateral on reverse repurchase agreements	-	-	-	-	75,023	-	11.2	-
Money market placements	77,031	-	12.3 - 15.5	-	11,003	-	11.0	-
Total	**108,606**	**1,179,292**			**152,550**	**334,952**		

(Currency – In thousands of Turkish Lira (TL))

6. CASH AND CASH EQUIVALENTS (continued)

Balances with Central Bank include:

	31 December 2015		31 December 2014	
	Turkish Lira	Turkish Lira	Turkish Lira	Foreign Currency
Unrestricted demand deposits	21,367	280,054	28,203	157,654
Restricted reserve requirements	-	609,051	-	131,980
Total	**21,367**	**889,105**	**28,203**	**289,634**

According to the regulations of the Central Bank of Turkish Republic ("the Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day-to-day operations.

As at 31 December 2015, reserve deposit rates applicable for Turkish Lira liabilities are as follows:

TL Liabilities	Required Reserve Ratio (%)
Demand deposits, notice deposits, private current accounts	11.5
Deposits/participation accounts up to 1 month maturity	11.5
Deposits/participation accounts up to 3 months maturity	11.5
Deposits/participation accounts up to 6 months maturity	8.5
Deposits/participation accounts up to 1 year maturity	6.5
Deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts	5.0
TL other liabilities accounts up to 1 year maturity (including 1 year)	11.5
TL other liabilities accounts up to 3 years maturity (including 3 years)	8.0
TL other liabilities longer than 3 years maturity	5.0

Turkish Lira balances are included in "Balances with Central Bank".

As at 31 December 2015, reserve deposit rates applicable for foreign currency liabilities are as follows:

Foreign Currency Liabilities	Required Reserve Ratio (%)
FC demand deposits, notice deposits, foreign currency private current accounts	13.0
FC Deposits/participation accounts up to 1 month maturity	13.0
FC Deposits/participation accounts up to 3 month maturity	13.0
FC Deposits/participation accounts up to 6 month maturity	13.0
FC Deposits/participation accounts up to 1 year maturity	13.0
FC deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts	9.0
Other foreign currency accounts up to 1 year maturity (including 1 year)	25.0
Other foreign currency accounts up to 3 years maturity (including 3 years)	15.0-20.0
Other foreign currency accounts longer than 3 years maturity	5.0-7.0

Interest payments are made to required reserves held as TL as of November 2014 and required reserves held as USD as of May 2015, reserve options and free/open accounts.

(Currency – In thousands of Turkish Lira (TL))

7. TRADING SECURITIES

	31 December 2015		31 December 2014	
	Amount	**Effective Interest Rate (%)**	**Amount**	**Effective Interest Rate (%)**
Debt instruments				
Eurobonds issued by the Turkish government	-	-	425	1.9 – 7.1
Other instruments				
Equity securities	18	-	36	-
Mutual funds	-	-	2,017	-
Total trading securities	**18**	**-**	**2,478**	

Trading debt securities have fixed rates.

As at 31 December 2015 and 2014, none of the trading securities are kept as collateral or guarantee.

8. INVESTMENT SECURITIES

Available for Sale Securities

	31 December 2015		31 December 2014	
	Amount	**Effective Interest Rate (%)**	**Amount**	**Effective Interest Rate (%)**
Equity instruments				
Equity securities	160	-	160	-
Debt instruments				
Turkish government bonds	269,776	6.3-11.3	199,370	6.3 – 12.6
Eurobonds issued by Turkish government	284,231	3.8-6.3	33	4.3 – 6.3
Other debt securities	532,287	4.2-5.2	4,164	5.8
Total available for sale securities at fair value	**1,086,454**		**203,727**	

As at 31 December 2015, TL 84,743 (2014 – TL 175,613) of available for sale securities has floating interest rates and the remaining portion has fixed rates.

The movement in available for sale securities is summarized as follows:

Available for Sale Securities	**2015**	**2014**
At 1 January	203,727	388,948
Foreign exchange differences	487	306
Purchases	1,097,754	71,083
Disposals and revaluation differences (sale or redemption)	(215,514)	(256,610)
At 31 December	**1,086,454**	**203,727**

As at 31 December 2015, TL 13,240 (2014 – TL 10,217) of available-for-sale securities is kept as a guarantee for stock exchange and other money market operations.

(Currency – In thousands of Turkish Lira (TL))

8. INVESTMENT SECURITIES (continued)

Available for Sale Securities (continued)

As at 31 December 2015 and 2014, certain portion of available for sale securities is pledged under repurchase agreements. Carrying value of securities pledged under repurchase agreements and carrying value of liabilities that are related to such securities are as follows:

	31 December 2015	31 December 2014
Carrying value of securities pledged under repurchase agreements	598,051	64,480
Carrying value of liabilities of such securities	518,817	64,359

Repurchase agreements mature within one month.

Gains and losses from investment securities comprise of TL 130 for derecognition of available for sale securities for the year ended 31 December 2015 (2014 – TL 8,995).

Held to Maturity Securities

As at 31 December 2015 and 2014, there are no securities classified under held to maturity portfolio.

9. LOANS AND ADVANCES

	31 December 2015						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,482,529	1,822,436	249,844	3,554,809	7.1-21.4	1.0-7.7	2.4-8.9
Consumer loans	459,257	-	1,267	460,524	8.3-21.4	-	3.9-8.1
Credit cards	26,556	597	-	27,153	27.0-35.0	-	-
Specialized loans	6,697	-	-	6,697	11.2-16.8	-	-
Investment loans	55,552	-	-	55,552	13.3-38.3	-	-
Total loans	**2,030,591**	**1,823,033**	**251,111**	**4,104,735**			
Loans under follow-up	180,591	-	-	180,591			
Less: Allowance for losses on loans and advances	(167,326)	-	-	(167,326)			
Total	**2,043,856**	**1,823,033**	**251,111**	**4,118,000**			

	31 December 2014						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,743,999	428,990	180,301	2,353,290	5.8-20.3	1.9-9.0	2.8-10.3
Consumer loans	343,448	5,601	2,798	351,847	6.6-22.3	7.4	5.0-8.1
Credit cards	27,028	390	-	27,418	15.0-34.0	-	-
Specialized loans	14,422	-	-	14,422	11.2-16.8	-	-
Investment loans	18,376	-	-	18,376	11.9-38.3	-	-
Total loans	2,147,273	434,981	183,099	2,765,353			
Loans under follow-up	158,212	-	-	158,212			
Less: Allowance for losses on loans and advances	(150,571)	-	-	(150,571)			
Total	**2,154,914**	**434,981**	**183,099**	**2,772,994**			

(Currency – In thousands of Turkish Lira (TL))

9. LOANS AND ADVANCES (continued)

The portfolio reserve amounting to TL 32,620 (2014 – TL 39,924) for impairment is provided based on past experience, management's assessments of the current economic conditions and the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

Movements in the allowance for impairment	**2015**	**2014**
Specific allowance for impairment		
Allowance at beginning of year	110,647	133,617
Charge for the year	29,415	36,749
Recoveries	(4,778)	(6,050)
Provision net of recoveries	24,637	30,699
Loans written off during the year and other adjustments (*)	(578)	(53,669)
Balance at 31 December	134,706	110,647
Collective allowances for impairment		
Allowance at beginning of year	39,924	30,424
Charge for the year	(7,304)	9,500
Balance at 31 December	32,620	39,924
Total allowances for impairment	**167,326**	**150,571**

Reconciliation of provision for impairment of loans and advances	**2015**	**2014**
Impairment loss for specific allowances	24,637	30,699
Impairment loss for collective allowances	(7,304)	9,500
Total provision net of recoveries – for cash loans	17,333	40,199
Provision net of recoveries – for non-cash loans and commitments (Note 15)	250	852
Total provision for impairment of loans and advances	17,583	41,051

(*) In the current period, the Group has written off TL 1,119 portion of its non-performing loans. The provision amount written off regarding such transaction is TL 1,119. Besides, TL 581 provision for indemnified non-cash loans for which provision has been booked on other provisions account on the liability side in prior period has been transferred to specific allowances account in the current period. In addition, TL 40 provision has been transferred to provisions against lawsuits account on the liability side.

As at 31 December 2015, the amount of loans and advances, on which interest is not being accrued or where interest is suspended, is TL 180,591 (2014 – TL 158,212).

As at 31 December 2015, TL 1,150,666 (2014 – TL 770,684) of loans and advances have floating interest rates and the remaining portion has fixed rates.

(Currency – In thousands of Turkish Lira (TL))

10. PROPERTY AND EQUIPMENT

	Buildings	**Furniture and Office Equipment**	**Leased Assets**	**Motor Vehicles**	**Total**
At 1 January 2015					
Net of accumulated depreciation and impairment	13,630	13,176	7	8	26,821
Additions	-	1,911	-	-	1,911
Disposals, net (**)	-	(366)	-	-	(366)
Revaluation and impairment, net	1,923	-	-	-	1,923
Depreciation charge for the year	(198)	(3,391)	(5)	(8)	(3,602)
At 31 December 2015, net of accumulated depreciation and impairment	**15,355**	**11,330**	**2**	**-**	**26,687**
At 1 January 2015					
Cost	9,879	33,347	3,252	117	46,595
Revaluation and impairment, net (*)	7,228	-	-	-	7,228
Accumulated depreciation	(3,477)	(20,171)	(3,245)	(109)	(27,002)
Net carrying amount	**13,630**	**13,176**	**7**	**8**	**26,821**
At 31 December 2015					
Cost	9,879	33,865	3,170	117	47,031
Revaluation and impairment, net (*)	9,151	-	-	-	9,151
Accumulated depreciation	(3,675)	(22,535)	(3,168)	(117)	(29,495)
Net carrying amount	**15,355**	**11,330**	**2**	**-**	**26,687**

(*) As at 31 December 2015, there is TL 9,151 revaluation surplus on buildings (2014 – TL 7,228). Such revaluation surplus is identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third party appraiser commissioned by BRSA and Capital Markets Board.

(**) The cost and accumulated depreciation of disposed assets as at 31 December 2015 are as follows:

At 31 December 2015	**Buildings**	**Furniture and Office Equipment**	**Leased Assets**	**Motor Vehicles**	**Total**
Cost	-	1,393	82	-	1,475
Revaluation surplus	-	-	-	-	-
Accumulated depreciation and impairment	-	(1,027)	(82)	-	(1,109)
Net disposal amount	-	**366**	**-**	**-**	**366**

(Currency – In thousands of Turkish Lira (TL))

10. PROPERTY AND EQUIPMENT (continued)

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2014					
Net of accumulated depreciation and impairment	11,730	4,676	21	18	16,445
Additions	-	11,828	-	-	11,828
Disposals, net (*)	-	(334)	(1)	-	(335)
Revaluation and impairment, net	2,096	-	-	-	2,096
Depreciation charge for the year	(196)	(2,994)	(13)	(10)	(3,213)
At 31 December 2014, net of accumulated depreciation and impairment	**13,630**	**13,176**	**7**	**8**	**26,821**
At 1 January 2014					
Cost	9,879	27,334	6,427	117	43,757
Revaluation and impairment, net	5,132	-	-	-	5,132
Accumulated depreciation	(3,281)	(22,658)	(6,406)	(99)	(32,444)
Net carrying amount	**11,730**	**4,676**	**21**	**18**	**16,445**
At 31 December 2014					
Cost	9,879	33,347	3,252	117	46,595
Revaluation and impairment, net	7,228	-	-	-	7,228
Accumulated depreciation	(3,477)	(20,171)	(3,245)	(109)	(27,002)
Net carrying amount	**13,630**	**13,176**	**7**	**8**	**26,821**

(*) The cost and accumulated depreciation of disposed assets as at 31 December 2014 are as follows:

At 31 December 2014	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
Cost	-	5,815	3,175	-	8,990
Impairment	-	-	-	-	-
Accumulated depreciation and impairment	-	(5,481)	(3,174)	-	(8,655)
Net disposal amount	-	334	1	-	335

There are no capitalized borrowing costs related to the acquisition of the property and equipment during the year (2014: None).

11. INTANGIBLE ASSETS

Software Licenses and Other	2015	2014
Beginning of the year, net of accumulated amortization	1,974	1,902
Additions	120	687
Disposals, net	(1)	-
Amortization charge for the year	(597)	(615)
At the end of the year, net of accumulated amortization	**1,496**	**1,974**
At beginning of the year		
Cost	19,652	18,965
Accumulated amortization	(17,678)	(17,063)
Net carrying amount	**1,974**	**1,902**
At end of the year		
Cost	19,769	19,652
Accumulated amortization	(18,273)	(17,678)
Net carrying amount	**1,496**	**1,974**

(Currency – In thousands of Turkish Lira (TL))

12. OTHER ASSETS

	31 December 2015	31 December 2014
Transitory receivables (*)	39,910	40,427
Collaterals given	16,591	23,032
Assets to be disposed of (**)	9,927	11,190
Prepaid expenses	2,166	1,508
Office supply inventory	638	363
Receivables from credit cards and debit cards	317	419
Payments for mutual funds	209	365
Prepaid income taxes	-	2,292
Others	4,952	4,086
	74,710	**83,682**

(*) Transitory receivables mainly include receivables from clearing house of cheques.

(**) Assets to be disposed of account comprise mainly property, acquired from defaulted loan customers and will be mainly realized through sale. The movement of assets to be disposed of is as follows:

	2015	2014
Opening balance at 1 January	11,190	7,316
Additions	1,073	10,077
Disposals, net	(2,282)	(6,027)
Net (charge) / reversal of provision for impairment	(54)	(176)
Closing balance at 31 December	**9,927**	**11,190**

As at 31 December 2015, the impairment on assets to be disposed of account, which is based on independent appraisal reports, amounts to TL 161 (2014 – TL 661). The amount of reversal of impairment for the items disposed is TL 554 (2014 – TL 1,153).

13. DEPOSITS

Due to Banks

	31 December 2015				31 December 2014			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	36	1	-	-	29	1	-	-
Time	-	-	-	-	-	164,997	-	0.2 – 1.5
Total	**36**	**1**	**-**	**-**	**29**	**164,998**		

(Currency – In thousands of Turkish Lira (TL))

13. DEPOSITS (continued)

Deposits

	31 December 2015				31 December 2014			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	17,827	28,342	-	-	18,821	17,340	-	-
Time	799,564	552,137	5.5-12.8	0.1-2.3	879,978	535,644	4.5 – 14.8	0.1 – 3.0
	817,391	**580,479**			**898,799**	**552,984**		
Commercial and other								
Demand	47,895	360,875	-	-	73,817	29,406	-	-
Time	117,190	210,682	5.5-12.8	0.1-2.5	382,352	404,875	4.5 – 11.9	0.1 – 2.8
	165,085	**571,557**			**456,169**	**434,281**		
Total	**982,476**	**1,152,036**			**1,354,968**	**987,265**		

Other Money Market Deposits

	31 December 2015				31 December 2014			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
Due to customers	910	-	5.0	-	13	-	6.0	-
Due to banks & mutual funds	107,133	410,774	7.5-10.8	1.4-2.1	64,346	-	8.3 - 10.1	-
Total	**108,043**	**410,774**			**64,359**	**-**		

14. FUNDS BORROWED

	31 December 2015				31 December 2014			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Short term (*)								
Fixed interest	22,345	1,257,236	6.3-6.8	0.5 - 3.4	35,174	264,727	6.3-9.2	1.0-2.7
Floating interest	-	-	-	-	-	-	-	-
Medium/long term (*)								
Fixed interest	-	1,875,917	-	0.9 – 2.0	935	47,267	5.3-5.8	1.3-3.1
Floating interest	-	-	-	-	-	-	-	-
Total	**22,345**	**3,133,153**			**36,109**	**311,994**		

(*) The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

(Currency – In thousands of Turkish Lira (TL))

14. FUNDS BORROWED (continued)

Repayments of medium/long term borrowing are as follows:

	31 December 2015	31 December 2014
2015	-	48,202
2016	1,874,226	-
2017	1,691	-
Total	**1,875,917**	**48,202**

The Group did not have any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2015 (2014 – None).

Funds borrowed consists of funds obtained from Turkish Eximbank to finance certain export loans given to customers under prevailing regulations and funds obtained from foreign banks and financial institutions. The domestic funding from Turkish Eximbank constitutes only 1% of total funds borrowed (2014 – 16%). In the current period the majority of the funds borrowed, 97%, are obtained from the Bank's current shareholder ICBC and group companies of ICBC (2014 – no funding from related parties). The Group had borrowed a total amount of TL 4,343,075 during year 2015 (2014 – TL 699,700) and paid a total amount of TL 1,543,716 (2014 – TL 692,818). As at 31 December 2015 there is no syndicated loan facility (2014 – None).

Finance Leases:

As at 31 December 2015 and 2014, the Group has no finance lease obligations.

As at 31 December 2015 and 2014, the Group does not have any obligations from operational lease agreements.

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS

	31 December 2015	31 December 2014
Other liabilities		
Transitory payables	123,325	2,441
Transfer orders	56,128	50,458
Taxes and funds payable	9,325	7,393
Blocked checks and other blockage items	2,239	1,978
Payable for credit card settlements	943	4,283
Advances taken	150	234
Others	11,596	8,321
	203,806	**75,108**
Employee benefits		
Employee termination benefits	7,569	7,153
Employee vacation pay liability	4,300	3,882
	11,869	**11,035**
Provisions		
Provision for non-cash loans not indemnified	6,297	6,628
Provisions against lawsuits	6,198	3,248
	12,495	**9,876**
Total	**228,170**	**96,019**

(Currency – In thousands of Turkish Lira (TL))

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

Employee Termination Benefits

The movement in provision for employee termination benefits is as follows:

	2015	**2014**
At 1 January	7,153	5,515
Interest cost	521	475
Effects of change in actuarial assumptions	(1,089)	708
Paid during the year	(1,565)	(1,361)
Current service cost	2,549	1,816
At 31 December	**7,569**	**7,153**

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of full TL 3.828 and full TL 3.438 at 31 December 2015 and 2014, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2015 and 2014, the Group reflected a liability based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the date of financial position.

The principal actuarial assumptions used at the dates of financial position are as follows:

31 December	**2015**	**2014**
Discount rate	11.00	8.00
Expected rates of salary/limit increases	6.00	6.00

In the current period, actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated statement of comprehensive income, the prior year actuarial gains / losses were recognized in the consolidated income statement.

The movement in provision for employee vacation liability is as follows:

	2015	**2014**
At 1 January	3,882	3,679
Paid during the year	(410)	(192)
Current service cost	828	395
At 31 December	**4,300**	**3,882**

Provisions

As at 31 December 2015, the Group has provided TL 6,297 provision due to non-cash loans and irrevocable commitments that are not indemnified yet, however whose cash loan balances are impaired (2014 – TL 6,628).

As at 31 December 2015, the Group has provided TL 6,198 provision due to certain lawsuits filed against the Group (2014 – TL 3,248).

(Currency – In thousands of Turkish Lira (TL))

15. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

The movement in provision for non-cash loans not indemnified is as follows:

	2015	**2014**
At 1 January	6,628	7,256
Charge for the year	1,421	1,472
Recoveries	(1,171)	(620)
Transfer to specific allowances (Note 9)	(581)	(1,480)
At 31 December	**6,297**	**6,628**

The movement in provision against lawsuits is as follows:

	2015	**2014**
At 1 January	3,248	5,382
Charge for the year	2,979	1,386
Paid during the year	(69)	(3,520)
Transfer from specific allowances (Note 9)	40	-
At 31 December	**6,198**	**3,248**

16. INCOME TAXES

General Information

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

In Turkey, corporate tax rate is 20%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end date of financial position and taxes must be paid in one instalment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

The Bank and its subsidiaries, Tekstil Yatırım and ICBC Portföy, are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

Major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	2015	**2014**
Consolidated income statement		
Current income tax expense	2,863	2,077
Deferred income tax expense / (income)		
Relating to origination and reversal of temporary differences and tax loss	(1,518)	(1,363)
Income tax expense reported in the consolidated income statement	**1,345**	**714**

(Currency – In thousands of Turkish Lira (TL))

16. INCOME TAXES (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Profit before Income Tax	1,561	2,942
At Turkish statutory income tax rate of 20%	312	588
Tax exempt income	(37)	(502)
Non-deductible expenses	545	349
Others, net	525	279
Income tax expense	**1,345**	**714**

Deferred Income Tax

Deferred income tax at 31 December 2015 and 2014 relates to the following:

	Consolidated Statement of Financial Position		Recognized under Statement of Comp. Income & Equity	
	31 Dec 2015	**31 Dec 2014**	**2015**	**2014**
Deferred income tax liabilities				
Valuation and depreciation differences of property and equipment	302	352	50	(122)
Valuation differences of securities	-	-	-	2
Valuation differences of derivatives	-	1,410	1,410	100
Others	128	88	(40)	192
Gross deferred income tax liabilities	**430**	**1,850**	**1,420**	**172**
Deferred income tax assets				
Liability for employee termination benefits and unused vacation pay liability	2,373	2,207	166	369
Reserve for loan losses	6,524	7,985	(1,461)	2,353
Valuation differences of securities	2,631	1	2,630	(42)
Valuation differences of derivatives	803	-	803	-
Others	1,656	1,379	277	(1,457)
Gross deferred income tax assets	**13,987**	**11,572**	**2,415**	**1,223**
Deferred income taxes, net	**13,557**	**9,722**	**3,835**	**1,395**

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

	2015	2014
Deferred tax asset, net at 1 January	9,722	8,327
Deferred income tax recognized under profit or loss	1,518	1,363
Deferred income tax recognized under shareholders' equity (*)	2,317	32
Deferred tax asset, net at 31 December	**13,557**	**9,722**

(*) The change in deferred tax asset/liability of TL 2,317, recognized under shareholders' equity, consists of TL (217) resulting from actuarial losses, TL (96) resulting from the revaluation surplus on buildings and TL 2,630 resulting from valuation differences of securities. Additionally, TL 394 income tax expense, resulting from gain on securities, is recognized under shareholders' equity.

(Currency – In thousands of Turkish Lira (TL))

16. INCOME TAXES (continued)

Current Income Tax Payable

Income tax payable at 31 December 2015 and 2014 is as follows:

	31 December 2015		31 December 2014	
	Parent Bank	**Subsidiary**	**Parent Bank**	**Subsidiary**
Current income tax charge	1,433	1,037	2,040	442
Prepaid income taxes	(634)	(628)	(4,332)	(292)
Income tax payable, net	**799**	**409**	**-**	**150**
Prepaid income taxes, net	**-**	**-**	**(2,292)**	**-**

17. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	31 December 2015		31 December 2014	
	Fair value assets	**Fair value liabilities**	**Fair value assets**	**Fair value liabilities**
Derivatives held for trading				
Forward currency purchases and sales	29	3	55	76
Currency swap purchases and sales (*)	210	4,253	12,730	5,659
Options purchases and sales	-	-	-	-
Total	**239**	**4,256**	**12,785**	**5,735**

(*) Includes TL 136 of fair value asset resulted from precious metal swap purchase and sales transaction (2014 – TL 574 fair value assets and TL 115 fair value liabilities).

The fair values of derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As at 31 December 2015 and 2014, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

(Currency – In thousands of Turkish Lira (TL))

17. DERIVATIVES (continued)

The table below shows the notional amounts of derivative instruments analyzed by currency:

31 December 2015	**Turkish Lira**	**US Dollars**	**Euro**	**Others**	**Total**
Purchases / inflows					
Currency forwards	20,515	899	-	-	21,414
Currency swaps	-	726,606	44,486	8,990	780,082
Other derivative transactions	-	-	-	-	-
Sales / outflows					
Currency forwards	585	19,190	1,589	-	21,364
Currency swaps	675,549	54,032	-	8,299	737,880
Other derivative transactions	668	-	-	49,419	50,087
Total of purchases / inflows	20,515	727,505	44,486	8,990	801,496
Total of sales / outflows	676,802	73,222	1,589	57,718	809,331
Net notional position	**(656,287)**	**654,283**	**42,897**	**(48,728)**	**(7,835)**

31 December 2014	**Turkish Lira**	**US Dollars**	**Euro**	**Others**	**Total**
Purchases / inflows					
Currency forwards	5,532	5,401	423	193	11,549
Currency swaps	1,236	521,522	320,714	8,237	851,709
Other derivative transactions	-	-	-	22,054	22,054
Sales / outflows					
Currency forwards	3,956	5,873	897	863	11,589
Currency swaps	469,467	329,599	-	2,582	801,648
Other derivative transactions	-	-	-	66,162	66,162
Total of purchases / inflows	6,768	526,923	321,137	30,484	885,312
Total of sales / outflows	473,423	335,472	897	69,607	879,399
Net notional position	**(466,655)**	**191,451**	**320,240**	**(39,123)**	**5,913**

The table below shows the the notional amounts of derivative instruments analyzed by the term to maturity:

31 December 2015	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency forwards:						
Purchases / inflows	21,414	-	-	-	-	21,414
Sales / outflows	21,364	-	-	-	-	21,364
Currency swaps:						
Purchases / inflows	772,982	7,100	-	-	-	780,082
Sales / outflows	730,753	7,127	-	-	-	737,880
Other transactions:						
Purchases / inflows	-	-	-	-	-	-
Sales / outflows	49,419	668	-	-	-	50,087
Total of purchases / inflows	794,396	7,100	-	-	-	801,496
Total of sales / outflows	801,536	7,795	-	-	-	809,331
Total of transactions	**1,595,932**	**14,895**	**-**	**-**	**-**	**1,610,827**

(Currency – In thousands of Turkish Lira (TL))

17. DERIVATIVES (continued)

31 December 2014	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency forwards:						
Purchases / inflows	7,269	1,897	2,383	-	-	11,549
Sales / outflows	7,254	1,956	2,379	-	-	11,589
Currency swaps:						
Purchases / inflows	746,838	104,871	-	-	-	851,709
Sales / outflows	694,133	107,515	-	-	-	801,648
Other transactions:						
Purchases / inflows	22,054	-	-	-	-	22,054
Sales / outflows	66,162	-	-	-	-	66,162
Total of purchases / inflows	776,161	106,768	2,383	-	-	885,312
Total of sales / outflows	767,549	109,471	2,379	-	-	879,399
Total of transactions	**1,543,710**	**216,239**	**4,762**	**-**	**-**	**1,764,711**

18. SHARE CAPITAL

	31 December 2015	**31 December 2014**
Number of common shares, TL 0.1 (in full TL), par value (Authorized and issued)	4,200,000,000	4,200,000,000

As at 31 December 2015 and 2014, the Bank's subscribed and issued share capital in historical terms are TL 420,000.

There is no share capital increase during the years ended 31 December 2015 and 2014.

As at 31 December 2015 and 2014, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

	31 December 2015		**31 December 2014**	
	Amount	**%**	**Amount**	**%**
Industrial and Commercial Bank of China Limited (ICBC)	389,844	92.82	-	-
GSD Holding A.Ş.	-	-	317,101	75.50
Publicly held	30,156	7.18	102,899	24.50
Total	**420,000**	**100.00**	**420,000**	**100.00**

The 70% of share capital of the Parent Bank consist of Type A shares and the remaining consist of Type B shares. Three out of five members of the Board of Directors are appointed by Type A shareholders and the remaining two are appointed by Type B shareholders. There is no other privilege appointed.

(Currency – In thousands of Turkish Lira (TL))

19. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

	2015			2014		
	Legal Reserves	Retained Earnings (*)	Total	Legal Reserves	Retained Earnings (*)	Total
At 1 January	**10,833**	**167,552**	**178,385**	**8,572**	**167,585**	**176,157**
Net profit for the year	-	216	216	-	2,228	2,228
Transfer from retained earnings	704	(704)	-	2,261	(2,261)	-
At 31 December	**11,537**	**167,064**	**178,601**	**10,833**	**167,552**	**178,385**

(*) The amount of retained earnings not subject to distribution to shareholders due to current tax legislation is TL 57,780, which is mainly related to the gain resulted from the sale of headquarters building.

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.

20. DIVIDENDS PAID AND PROPOSED

As at 31 December 2015 and 2014, the Group did not distribute any dividends to shareholders in respect of 2014 and 2013 profits.

21. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation, such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are regarded similarly. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2015.

There is no dilution of the shares as at 31 December 2015 and 2014.

The following reflects the income (in Kurus) and share data used in the basic earnings per share computations:

	2015	2014
Net profit attributable to ordinary equity holders of the parents for basic earnings per share	0.005	0.05
Weighted average number of ordinary shares for basic earnings per share	4,200,000,000	4,200,000,000

(Currency – In thousands of Turkish Lira (TL))

22. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by ICBC which owns 92.82% (2014 – GSD Holding A.Ş.; 75.50%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and ICBC Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the ICBC's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

The summary of related party balances and results of transactions are presented below:

Related Party		Cash Loans & Due From Banks	Non-cash Loans	Deposits Taken	Notional Amount of Derivative Transactions	Interest Income	Interest Expense	Other Operating Income	Other Operating Expense
Shareholders (*)	2015	627,208	65,768	23	1,662,506	1,988	7,452	1	309
	2014	36	-	3	-	10	12	2	42
Others (**)	2015	458,547	5,440	290,969	1,389,626	2,697	4,902	19,162	640
	2014	69,005	517	28,546	-	2,509	912	90	1,087
Directors' interests	2015	77	-	2,681	-	-	548	7	13,655
	2014	183	-	17,269	-	-	1,112	-	5,984

(*) Shareholders represent only ICBC China for balance sheet and off-balance sheet items. For profit/loss items, shareholders represent both ICBC China since 22 May 2015 and GSD Holding A.Ş. until 21 May 2015.

(**) Others represent the shareholders and group companies of ICBC China for balance sheet and off-balance sheet items. As at 31 December 2015, cash loans mainly include TL 458,207 loans granted to Hai Kuo Company, a indirect subsidiary of ICBC China. As at 31 December 2015, deposits taken mainly include TL 290,969 due to Hai Kuo Company. For profit/loss items the shareholders and group companies of GSD Holding A.Ş. - previous owner - is included until 21 May 2015.

In addition to the balances represented above, the Parent Bank has TL 149 irrevocable commitment to related parties as at 31 December 2015 (2014 – TL 1,649).

Compensation of Key Management Personnel of the Group

For the year ended 31 December 2015, the executive and non-executive members of the Board of Directors and management received remuneration and fees totaling approximately TL 13,653 (2014 – TL 5,984) comprising salaries and other short-term benefits.

(Currency – In thousands of Turkish Lira (TL))

23. FEE AND COMMISSION INCOME AND EXPENSE

	2015	2014
Fee and commission income		
Letters of guarantee	6,176	8,102
Letters of credit, acceptance credits and other guarantees	240	384
Total	**6,416**	**8,486**
Fees and commission expense		
Corresponding bank fees and other commissions	5,719	4,924
Total	**5,719**	**4,924**

24. INCOME FROM BANKING SERVICES

	2015	2014
Income from credit cards	3,090	3,262
Income from insurance brokerage	1,253	861
Charges regarding account transactions	987	1,034
Charges regarding fund transfers	728	782
Income from check transactions	463	576
Income from fund management	430	482
Others	4,850	6,767
Total	**11,801**	**13,764**

25. NET TRADING INCOME

	2015	2014
Commissions from capital market transactions	8,115	6,603
Net trading income from derivative and currency transactions	2,563	2,493
Other gain/(loss)	158	71
Gain from derecognition of available-for-sale securities	130	8,995
Total	**10,966**	**18,162**

26. OTHER INCOME

	2015	2014
Income from sale of property, equipment and assets to be disposed of	833	2,340
Collections from loans written off in prior years	724	1,728
Others (*)	22,663	1,633
Total	**24,220**	**5,701**

(*) Others include TL 14,160 fees received with respect to consultancy services provided to customers included in related parties.

(Currency – In thousands of Turkish Lira (TL))

27. SALARIES AND EMPLOYEE BENEFITS

	2015	2014
Personnel expenses		
Wages and salaries	77,671	61,941
Other fringe benefits	10,136	10,033
Employers’ share of social security premiums	9,545	7,594
Provision for employee termination benefits and unused vacation pay liability	1,923	1,133
Total	**99,275**	**80,701**

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Operating lease expenses	22,628	18,634
Communication expenses	4,784	3,982
Maintenance expense	2,546	2,294
Cleaning and other residential expenses	2,122	2,001
Heating and lighting expenses	2,041	1,970
Transportation expenses	2,034	2,069
Printing and stationary expenses	748	583
Advertising expenses	730	502
Computer expenses	694	559
Hospitality and representation expenses	361	392
Insurance expenses	177	156
Others	4,276	3,403
Total	**43,141**	**36,545**

29. OTHER EXPENSES

	2015	2014
Saving deposit insurance fund premium	3,680	3,396
Provision for litigations	2,979	1,386
Consultancy expenses	1,139	865
Loss on sale of fixed assets	367	331
Provision for impairment of buildings & assets to be disposed of	54	176
Others	3,300	2,395
Total	**11,519**	**8,549**

(Currency – In thousands of Turkish Lira (TL))

30. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiary undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	31 December 2015	31 December 2014
Letters of guarantee	621,941	721,025
Letters of credit	84,697	107,643
Acceptance credits	203	276
Other guarantees	24,493	20,633
Total non-cash loans	**731,334**	**849,577**
Credit card limits	81,792	84,778
Other commitments	140,837	165,404
Total	**953,963**	**1,099,759**

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of 1 to 10 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancellable operating leases.

Litigation

In the normal course of its operations, the Group can face with legal disputes, claims and complaints. The necessary provision for those cases is provided based on management estimates and professional advice. As at 31 December 2015, TL 6,198 provision is provided against such litigations (2014 – TL 3,248).

Fiduciary Activities

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

The Group also manages 5 open-ended mutual funds (2014 – 5 open-ended mutual funds), which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Total amount of ICBC Turkey Portföy golden fund, variable funds, share fund and money market fund which are established by the Parent Bank, is TL 28,474 as of 31 December 2015 (31 December 2014: TL 39,027).

31. EVENTS AFTER THE REPORTING PERIOD

None.