**TÜRKİYE VAKIFLAR BANKASI**
**TÜRK ANONİM ORTAKLIĞI**
**AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**
**AT 31 DECEMBER 2015**
**TOGETHER WITH INDEPENDENT AUDITOR’S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

1. We have audited the accompanying consolidated financial statements of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as of 31 December 2015 and consolidated statement of profit or loss and other 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*

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

*Auditor's responsibility*

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

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

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

*Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. a member of PricewaterhouseCoopers*
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*Opinion*

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries as of 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM
Partner

Istanbul, 29 April 2016

# TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

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

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# TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
# AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2015

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

| | Notes | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 6 | 27,613,362 | 25,328,522 |
| Financial assets at fair value through profit or loss | 7 | 995,929 | 450,241 |
| Loans and advances to banks | 9 | 242,592 | 564,915 |
| Loans and advances to customers | 10 | 125,855,872 | 106,555,401 |
| Investment securities | 12 | 25,129,730 | 23,830,408 |
| Investments in associates | 13 | 263,182 | 229,602 |
| Property and equipment | 14 | 1,777,370 | 986,922 |
| Intangible assets | 14 | 329,864 | 162,340 |
| Current tax asset | | 3,731 | 9,331 |
| Deferred tax asset | 23 | 473,799 | 329,672 |
| Other financial assets | 15 | 644,859 | 545,184 |
| Other assets | 15 | 4,783,469 | 3,834,486 |
| **Total assets** | | **188,113,759** | **162,827,024** |
| **LIABILITIES AND EQUITY** | | | |
| Trading liabilities | 16 | 304,352 | 270,627 |
| Deposits from banks | 17 | 6,811,975 | 5,220,355 |
| Deposits from customers | 18 | 106,335,452 | 88,511,777 |
| Obligations under repurchase agreements | 8 | 11,593,698 | 16,185,302 |
| Funds borrowed | 19 | 20,195,047 | 16,260,650 |
| Debt securities issued | 20 | 10,646,708 | 10,384,708 |
| Subordinated liabilities | 21 | 4,155,551 | 2,126,436 |
| Other liabilities and provisions | 22 | 10,075,731 | 7,535,295 |
| Corporate tax liability | 23 | 233,004 | 249,940 |
| Deferred tax liability | 23 | 19,574 | 15,208 |
| **Total liabilities** | | **170,371,092** | **146,760,298** |
| **Equity attributable to owners of the parent** | | | |
| Share capital | | 3,300,146 | 3,300,146 |
| Share premium | | 724,352 | 724,316 |
| Revaluation surplus | | 652,348 | - |
| Other reserves | | 1,415,913 | 1,701,584 |
| Retained earnings | | 11,013,438 | 9,721,220 |
| **Total equity attributable to owners of the parent** | | **17,106,197** | **15,447,266** |
| **Non-controlling interests** | **25** | **636,470** | **619,460** |
| **Total equity** | | **17,742,667** | **16,066,726** |
| **Total liabilities and equity** | | **188,113,759** | **162,827,024** |
| **Commitments and contingencies** | **31** | **67,967,945** | **55,819,223** |

The notes on pages 7 to 81 are an integral part of these consolidated financial statements.

## CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

| | Notes | 1 January - 31 December 2015 | 1 January - 31 December 2014 |
|---|---|---|---|
| **Interest income** | | | |
| Interest on loans and receivables | | 11,698,267 | 9,472,448 |
| Interest on securities | | 2,044,412 | 2,025,523 |
| - *Trading financial assets* | | *24,822* | *11,215* |
| - *Available-for-sale financial assets* | | *1,388,083* | *1,479,262* |
| - *Held-to-maturity investments* | | *631,507* | *535,046* |
| Interest on deposits at banks | | 81,693 | 69,167 |
| Interest on money market placements | | 1,633 | 931 |
| Other interest income | | 120,004 | 61,138 |
| **Total interest income** | | **13,946,009** | **11,629,207** |
| **Interest expense** | | | |
| Interest on deposits | | (6,106,779) | (5,033,143) |
| Interest on money market deposits | | (886,728) | (925,913) |
| Interest on funds borrowed | | (362,500) | (243,009) |
| Interest expense on securities issued | | (595,176) | (445,715) |
| Other interest expense | | (278,061) | (151,171) |
| **Total interest expense** | | **(8,229,244)** | **(6,798,951)** |
| **Net interest income** | | **5,716,765** | **4,830,256** |
| Fee and commission income | | 1,351,394 | 1,109,383 |
| Fee and commission expense | | (481,113) | (434,927) |
| **Net fee and commission income** | **27** | **870,281** | **674,456** |
| **Other operating income** | | | |
| Net trading income | | 26,998 | 139,659 |
| Net foreign exchange gains/(losses) | | 120,454 | 110,374 |
| Other income | 28 | 1,346,409 | 1,309,192 |
| **Total other operating income** | | **1,493,861** | **1,559,225** |
| **Other administrative and operating expenses** | | | |
| Salaries and employee benefit expenses | 29 | (1,730,629) | (1,538,500) |
| Incurred loan losses, net of recoveries | | (1,334,781) | (1,077,627) |
| Depreciation and amortization expense | | (154,651) | (131,347) |
| Taxes other than on income | | (125,706) | (105,366) |
| Other expenses | 30 | (2,939,232) | (2,204,736) |
| **Total other administrative and operating expenses** | | **(6,284,999)** | **(5,057,576)** |
| Share of profit of associates accounted for using the equity method | | 37,770 | 32,447 |
| **Profit before income tax** | | **1,833,678** | **2,038,808** |
| Income tax expense | 23 | (350,772) | (363,117) |
| **Profit for the year** | | **1,482,906** | **1,675,691** |

The notes on pages 7 to 81 are an integral part of these consolidated financial statements.

## CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

| | Notes | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| **Items that will never be classified to profit or loss:** | | | |
| Re-measurement of post - employment benefit obligation | | 1,225 | (43,696) |
| Revaluation of property, plant and equipment | | 788,532 | - |
| Related tax | | (45,091) | 8,739 |
| | | **744,666** | **(34,957)** |
| **Items that are or may be reclassified subsequently to profit or loss:** | | | |
| Foreign currency translation differences for foreign operations | | 42,102 | (16,843) |
| Net change in fair value of available for sale financial assets | | (644,184) | 668,303 |
| Fair value differences of available for sale financial assets transferred to profit or loss | | 36,105 | 168,110 |
| Related tax | 23 | 116,347 | (161,957) |
| **Other comprehensive income for the year, net of income tax** | | **295,036** | **622,656** |
| **Total comprehensive income for the year** | | **1,777,942** | **2,298,347** |
| **Profit attributable to:** | | | |
| Owners of the Bank | | 1,556,588 | 1,664,304 |
| Non-controlling interest | 25 | (73,682) | 11,387 |
| **Profit for the year** | | **1,482,906** | **1,675,691** |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Bank | | 1,757,239 | 2,290,761 |
| Non-controlling interest | | 20,703 | 7,586 |
| **Total comprehensive income for the year** | | **1,777,942** | **2,298,347** |
| Basic and diluted earnings per share on profit for the year (full TL) | 24 | 0.0059 | 0.0067 |

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

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

| | Attributable to Owners of the Parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | |
| | Share Capital | Share premium | Fair value reserves | Revaluation Surplus | Currency translation reserve | Legal reserves | Retained earnings | Total | Non-controlling interest | Total equity |
| **Balances at 1 January 2015** | **3,300,146** | **724,316** | **506,220** | **-** | **118,470** | **1,076,894** | **9,721,220** | **15,447,266** | **619,460** | **16,066,726** |
| **Profit for the period** | **-** | **-** | **-** | **-** | **-** | **-** | **1,556,588** | **1,556,588** | **(73,682)** | **1,482,906** |
| **Other comprehensive income** | | | | | | | | | | |
| Re-measurements of defined benefit plans | - | - | - | - | - | - | 1,889 | 1,889 | (909) | 980 |
| Change in revaluation surplus | - | - | - | 652,348 | - | - | - | 652,348 | 91,338 | 743,686 |
| Foreign currency translation differences | - | - | - | - | 38,146 | - | - | 38,146 | 3,956 | 42,102 |
| Net change in fair value of available for sale financial assets, net of tax | - | - | (526,842) | - | - | - | (995) | (527,837) | - | (527,837) |
| Fair value differences of available for sale financial assets transferred to profit or loss | - | - | 36,105 | - | - | - | - | 36,105 | - | 36,105 |
| Other items | - | 36 | - | - | - | - | (36) | - | - | - |
| **Total other comprehensive income** | **-** | **36** | **(490,737)** | **652,348** | **38,146** | **-** | **858** | **200,651** | **94,385** | **295,036** |
| **Total comprehensive income for the period** | **-** | **36** | **(490,737)** | **652,348** | **38,146** | **-** | **1,557,446** | **1,757,239** | **20,703** | **1,777,942** |
| Transfer to reserves | - | - | - | - | - | 166,920 | (166,920) | - | - | - |
| Dividends paid | - | - | - | - | - | - | (100,000) | (100,000) | (1,547) | (101,547) |
| Other items | - | - | - | - | - | - | 1,692 | 1,692 | (2,146) | (454) |
| **Total contributions by and distributions to owners of the parent, recognized directly in equity** | **-** | **-** | **-** | **-** | **-** | **166,920** | **(265,228)** | **(98,308)** | **(3,693)** | **(102,001)** |
| **Balances at 31 December 2015** | **3,300,146** | **724,352** | **15,483** | **652,348** | **156,616** | **1,243,814** | **11,013,438** | **17,106,197** | **636,470** | **17,742,667** |

The notes on pages 7 to 81 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2014

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

| | Attributable to Owners of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | |
| | Share capital | Share premium | Fair value reserves | Translation reserve | Legal reserves | Retained earnings | Total | Non-controlling interest | Total equity |
| **Balances at 1 January 2014** | **3,300,146** | **724,316** | **(168,236)** | **133,175** | **913,867** | **8,366,271** | **13,269,539** | **408,205** | **13,677,744** |
| ***Total comprehensive income for the year*** | | | | | | | | | |
| **Profit for the year** | - | - | - | - | - | **1,664,304** | **1,664,304** | **11,387** | **1,675,691** |
| **Other comprehensive income** | | | | | | | | | |
| Re-measurements of defined benefit plans, net of tax | - | - | - | - | - | (33,294) | (33,294) | (1,663) | (34,957) |
| Foreign currency translation differences | - | - | - | (14,705) | - | - | (14,705) | (2,138) | (16,843) |
| Net changes in fair value of available for sale financial assets, net of tax | - | - | 506,346 | - | - | - | 506,346 | - | 506,346 |
| Net losses on available for sale financial assets transferred to profit or loss, net of tax | - | - | 168,110 | - | - | - | 168,110 | - | 168,110 |
| Other items | - | - | - | - | - | - | - | - | - |
| **Total other comprehensive income** | - | - | **674,456** | **(14,705)** | - | **(33,294)** | **626,457** | **(3,801)** | **622,656** |
| **Total comprehensive income for the period** | - | - | **674,456** | **(14,705)** | - | **1,631,010** | **2,290,761** | **7,586** | **2,298,347** |
| ***Transactions with owners, recorded directly in equity*** | | | | | | | | | |
| Transfer to reserves | - | - | - | - | 164,345 | (164,345) | - | - | - |
| Dividends paid | - | - | - | - | - | (100,000) | (100,000) | (2,371) | (102,371) |
| Other items | - | - | - | - | (1,318) | (11,716) | (13,034) | 206,040 | 193,006 |
| **Total contributions by and distributions to owners** | - | - | - | - | **163,027** | **(276,061)** | **(113,034)** | **203,669** | **90,635** |
| **Balances at 31 December 2014** | **3,300,146** | **724,316** | **506,220** | **118,470** | **1,076,894** | **9,721,220** | **15,447,266** | **619,460** | **16,066,726** |

The notes on pages 7 to 81 are an integral part of these consolidated financial statements.

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

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

| | Notes | 1 January - 31 December 2015 | 1 January - 31 December 2014 |
|---|---|---|---|
| Profit for the year | | 1,482,906 | 1,675,691 |
| *Adjustments for:* | | | |
| Income tax expense | 23 | 350,772 | 363,117 |
| Provision for incurred loan losses, net of recoveries | | 1,334,781 | 1,077,627 |
| Depreciation and amortization | 14 | 154,651 | 131,347 |
| Provision for short term employee benefits | 29 | 3,961 | 231,829 |
| Provision for retirement pay liability and unused vacations | 29 | 183,916 | 88,672 |
| Unearned premium reserve | 28 | 55,910 | 152,978 |
| Change in provision for outstanding claims | 30 | 316,641 | 74,332 |
| Other provision expenses | 30 | 135,504 | 27,660 |
| Net interest income | | (5,716,765) | (4,830,256) |
| Share of profit of equity-accounted investees | | (37,770) | (32,447) |
| Currency translation differences | | 38,146 | (7,360) |
| Other non-cash adjustments | | (749,628) | (362,775) |
| | | **(2,446,975)** | **(1,409,585)** |
| Loans and advances to banks | | 322,323 | (399,411) |
| Reserve deposits | | (2,283,425) | (8,047,658) |
| Financial assets at fair value through profit or loss | | (42,696) | 212,991 |
| Loans and advances to customers | | (20,419,791) | (17,066,370) |
| Other assets | | 459,937 | 7,254,236 |
| Deposits from banks | | 1,593,474 | 917,985 |
| Deposits from customers | | 17,738,859 | 9,716,788 |
| Obligation under repurchase agreements | | (4,597,442) | 1,612,885 |
| Other liabilities and provisions | | 1,785,227 | 152,686 |
| | | **(5,443,534)** | **(5,645,868)** |
| Interest received | | 13,024,334 | 10,816,159 |
| Interest paid | | (6,028,278) | (6,576,771) |
| Taxes paid | | (435,446) | (556,581) |
| **Cash used in operating activities** | | **(1,329,899)** | **(3,372,646)** |
| **Cash flows from investing activities:** | | | |
| Dividends received | 28 | 9,231 | 11,421 |
| Acquisition of property and equipment | | (507,822) | (196,480) |
| Proceeds from the sale of property and equipment | | 717,663 | 70,972 |
| Acquisition of intangible assets | | (198,022) | (47,804) |
| Proceeds from the sale of intangible assets | | 229 | - |
| Acquisition of investment securities | | (9,333,705) | (7,677,250) |
| Proceeds from sale of investment securities | | 8,894,591 | 8,338,036 |
| **Cash provided/(used in) by investing activities** | | **(417,835)** | **498,895** |
| **Cash flows from financing activities:** | | | |
| Proceeds from issue of debt securities | | 10,079,268 | 8,540,424 |
| Repayments of debt securities | | (7,612,999) | (5,028,368) |
| Repayments of funds borrowed | | 9,518,542 | 8,538,258 |
| Proceeds from funds borrowed | | (7,822,660) | (4,588,544) |
| Dividends paid | | (101,547) | (102,371) |
| **Cash provided by financing activities** | | **4,060,604** | **7,359,399** |
| Effect of foreign exchange rate fluctuations on cash and cash equivalents | | (30,472) | (16,843) |
| **Net increase/(decrease) in cash and cash equivalents** | | **2,282,398** | **4,468,805** |
| Cash and cash equivalents at the beginning of the year | | 25,114,309 | 20,645,504 |
| **Cash and cash equivalents at the end of the year** | **6** | **27,396,707** | **25,114,309** |

The notes on pages 7 to 81 are an integral part of these consolidated financial statements

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

## 1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("The Bank" or "The Parent") was established under the authorization of special law numbered 6219, called "The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed,
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 917 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2014: 890 domestic, 3 foreign, in total 893 branches). As at 31 December 2015, the Bank has 15,410 (31 December 2014: 14,920) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank's head office is located at Sultan Selim Mahallesi, Eski Büyükdere Caddesi, No:59, Kağıthane- İstanbul.

The shareholder holding control over the Bank is the General Directorate of the Registered Foundations represented by the Turkish Republic General Directorate of the Foundations which is set up under Prime Ministry of Turkish Republic having 58.45% of the Bank's outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank. The shares of the Bank are quoted to Borsa İstanbul A.Ş. (BIST) and traded publicly.

As at 31 December 2015 and 2014 The Bank's paid-in capital amounted to TL 2,500,000 divided into 250,000,000,000 shares with a nominal value of 1 Kuruş each (TL 1 equals Kuruş 100).

As at 31 December 2015 the Bank's shareholders' structure is as follows:

| Shareholders | Number of the shares (100 units) | Nominal amount | Share (%) |
|---|---|---|---|
| Registered foundations represented by the General Directorate of the Foundations (Group A) | 1,075,058,640 | 1,075,058 | 43.00 |
| Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C) | 402,552,666 | 402,553 | 16.10 |
| Registered foundations represented by the General Directorate of the Foundations (Group B) | 386,224,785 | 386,225 | 15.45 |
| Other appendant foundations (Group B) | 3,091,997 | 3,092 | 0.13 |
| Other registered foundations (Group B) | 1,448,543 | 1,448 | 0.06 |
| Other real persons and legal entities (Group C) | 1,532,753 | 1,533 | 0.06 |
| Publicly traded (Group D) | 630,090,616 | 630,091 | 25.20 |
| **Paid-in capital** | **2,500,000,000** | **2,500,000** | **100.00** |
| Adjustment to share capital | | 800,146 | |
| **Total** | | **3,300,146** | |

The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until 1 January 2006.
These consolidated financial statements were approved for issue on 29 April 2016.

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

## 1. GENERAL INFORMATION (Continued)

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 31 December 2015 and 31 December 2014.

| **31 December 2015** | **Direct Shareholding Interest (%)** | **Indirect Shareholding Interest (%)** |
|---|---|---|
| *Subsidiaries:* | | |
| Güneş Sigorta A.Ş. (*) | 36.35 | 36.35 |
| Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*) | 22.89 | 32.91 |
| Vakıf Emeklilik A.Ş. | 53.90 | 75.30 |
| Vakıf Enerji ve Madencilik A.Ş. | 65.50 | 84.96 |
| Taksim Otelcilik A.Ş. | 51.00 | 51.52 |
| Vakıf Factoring A.Ş. | 78.39 | 86.99 |
| Vakıf Finansal Kiralama A.Ş. | 58.71 | 64.40 |
| Vakıf Yatırım Menkul Değerler A.Ş. | 99.00 | 99.44 |
| Vakıf Portföy Yönetimi A.Ş. | 100.00 | 100.00 |
| Vakıfbank International AG | 90.00 | 90.00 |
| Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*) | 38.70 | 40.64 |
| World Vakıf UBB Ltd in Liquidation (**) | 82.00 | 85.25 |
| *Associates:* | | |
| Kıbrıs Vakıflar Bankası Ltd. | 15.00 | 15.00 |
| T. Sınai Kalkınma Bankası A.Ş. | 8.38 | 8.38 |

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as "World Vakıf UBB Ltd. in Liquidation". Therefore, the financial statements of the subsidiary have not been consolidated as at 31 December 2015 and 31 December 2014.

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

Güneş Sigorta A.Ş. was established under the leadership of the Bank and Soil Products Office in 1957. The subsidiary provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection and loan insurance. Its head office is in Istanbul.

Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. was established in 1991 in Istanbul. The main activity of the subsidiary is to invest in a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Vakıf Emeklilik A.Ş. was established under the name Güneş Hayat Sigorta A.Ş. in 1991. In 2003 the subsidiary has taken conversion permission from the related regulatory body and started to operate both in pension business. Its head office is in Istanbul.

## 1. GENERAL INFORMATION (Continued)

Vakıf Enerji ve Madencilik A.Ş. was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik A.Ş. was established under the Turkish Commercial Code in 1966. The main activity of the subsidiary is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

Vakıf Factoring A.Ş. was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

Vakıf Finansal Kiralama A.Ş. was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler A.Ş. was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi A.Ş. operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıfbank International AG was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna, Austria.

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The subsidiary's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in İstanbul.

The Bank has also the following associates:

Kıbrıs Vakıflar Bankası Ltd. Şti. was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası A.Ş. was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1. Basis of Preparation

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL"). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements, which mainly comprise the effects of deferred taxation and reserve for impairment of loans and receivables.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations as of 1 January 2015, where applicable, noted below:

### 2.2. New and Revised International Financial Reporting Standards

***a) Standards, amendments and interpretations applicable as at 31 December 2015***

i) Amendment to IAS 19 regarding defined benefit plans, effective from annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

ii) Annual improvements 2012; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards:

- IFRS 2, 'Share-based payment'
- IFRS 3, 'Business Combinations'
- IFRS 8, 'Operating segments'
- IFRS 13, 'Fair value measurement'
- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'
- Consequential amendments to IFRS 9, 'Financial instruments', IAS 37, 'Provisions, contingent liabilities and contingent assets', and
- IAS 39, 'Financial instruments – Recognition and measurement'

iii) Annual improvements 2013; effective from annual periods beginning on or after 1 July 2014. These amendments include changes from the 2011-12-13 cycle of the annual improvements project, that affect 4 standards:

- IFRS 1, 'First time adoption'
- IFRS 3, 'Business combinations'
- IFRS 13, 'Fair value measurement' and
- IAS 40, 'Investment property'.

***b) Standards, amendments and interpretations effective after 1 January 2016:***

(i) Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation, effective from annual periods beginning on or after 1 January 2016. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

(ii) Amendments to IAS 16 'Property, plant and equipment', and IAS 41, 'Agriculture', regarding bearer plants, effective from annual periods beginning on or after 1 January 2016. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. It has been decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(iii) Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortization, effective from annual periods beginning on or after 1 January 2016. In this amendment it has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It is also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

(iv) IFRS 14 ‘Regulatory deferral accounts’, effective from annual periods beginning on or after 1 January 2016. IFRS 14, ‘Regulatory deferral accounts’ permits first–time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

(v) Amendments to IAS 27, ‘Separate financial statements’ on the equity method, effective from annual periods beginning on or after 1 January 2016. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

(vi) Amendments to IFRS 10, ‘Consolidated financial statements’ and IAS 28, ‘Investments in associates and joint ventures’, effective from annual periods beginning on or after 1 January 2016. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Annual improvements 2014, effective from annual periods beginning on or after 1 January 2016. These set of amendments impacts 4 standards:

- IFRS 5, ‘Non-current assets held for sale and discontinued operations’ regarding methods of disposal.
- IFRS 7, ‘Financial instruments: Disclosures’, (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, ‘Employee benefits’ regarding discount rates.
- IAS 34, ‘Interim financial reporting’ regarding disclosure of information.

(vii) Amendment to IAS 1, ‘Presentation of financial statements’ on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016, these amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

(viii) Amendment to IFRS 10 ‘Consolidated financial statements’ and IAS 28, ‘Investments in associates and joint ventures’, effective from annual periods beginning on or after 1 January 2016. These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

(ix) IFRS 15 ‘Revenue from contracts with customers’, effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(x) IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

(xi) IAS 12 'Income Taxes' effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

(xii) IFRS 16 'leases' effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. New standard requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same.

The new standards, amendments and interpretations which will be effective after 1 January 2016 are not expected to have a material impact on the Group's consolidated financial statements except for the adoption of IFRS 9. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

**2.3. Summary of Significant Accounting Policies, Judgments and Estimates**

**Accounting in hyperinflationary countries**

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 - Financial Reporting in Hyperinflationary Economies as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

**Functional and Presentation Currency**

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

### Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 2 (i) - impairment of financial assets.

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

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

Collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or for small portfolios with insufficient information, a formula approach based on historic loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimates the amount of loss. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and advances to customers as of 31 December 2015 is TL 125,855,872 (31 December 2014: TL 106,555,401) net of impairment allowance of TL 6,195,582 (31 December 2014: TL 4,838,962).

Collective allowance for groups of assets that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in equity securities were evaluated for impairment on the basis described in Note 2 (i) - *impairment of financial assets*.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

***Fair value***

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in (i) - *Measurement*.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly-i.e. as prices-or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the subsidiaries.

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but not control are accounted for using the equity method.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

***Associates***

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

***Transactions eliminated on consolidation***

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Foreign currency

***Foreign currency transactions***

Transactions are recorded in TL, which represents functional currency of the group's entities except for World Vakıf UBB Ltd. in Liquidation and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates ruling at the end of reporting period with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

***Foreign operations***

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. In Liquidation and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

- The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the end of the respective reporting period.
- The income and expenses of foreign operations are translated to TL using average exchange rates.
- Foreign currency differences arising from the translation of the financial statements of the foreign operations into TL for consolidation purpose are recognized in other comprehensive income and accumulated in the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the full amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

### (c) Interest

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

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

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

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis,
- interest on available-for-sale investment securities on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

### (d) Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy *(s)*) are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Net trading income

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

### (f) Dividends

Dividend income is recognized when the right to receive the income is established. Dividends are reflected as a component of other operating income.

### (g) Leases

***The Group as the lessee***

*Operating leases*

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

*Finance leases*

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

***The Group as the lessor***

*Finance leases*

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

### (h) Income taxes

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

**Corporate tax**

***Turkey***

Statutory income is subject to corporate tax at 20.0%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

75% of gains on disposal of equity shares and immovables which were held for at least 2 years within the assets of acquired entities after acquisition are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25$^{th}$ day of the fourth month following the close of the accounting period to which they relate. Tax returns are open to inspection for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue assessments based on their findings.

***Foreign subsidiary***

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

**Deferred taxes**

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities outside a business combination which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to set off current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities related to same taxable entity.

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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Transfer pricing regulations**

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

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

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue tax assessments based on their findings.

**Investment incentives**

As per the provisional Article no. 69, effective from 1 January 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated 8 April 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on 31 December 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at 31 December 2008.

In accordance with the decision taken by the Turkish Constitutional Court on 15 October 2009, the "2006, 2007 and 2008." clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the 8 January 2010 Official Gazette number 27456. Accordingly, the Group's subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per "Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws" accepted on 23 July 2010 at the Grand National Assembly of Turkey, the expression of "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date" has been amended as "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date" and the following expression of " Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate" has been added. This Law has been published in the Official Gazette on 1 August 2010.

The clause "The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income" which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the 9 February 2012 dated decisions no: E.2010/93 and K.2012/20.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Financial instruments

**Recognition**

The Group initially recognizes loans and advances and deposits on the date which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

**Classification**

*Financial assets at fair value through profit or loss* are trading financial assets acquired principally with the intention of disposal within a short period for the purpose of short-term profit making and derivative financial instruments. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss under other liabilities and provisions.

*Held-to-maturity investment securities* are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. These include certain debt securities.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group's financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

*Available-for-sale financial assets* are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

*Financial liability* is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

**Measurement**

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

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortized cost less impairment losses. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fair value measurement principles**

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

**Gains and losses on subsequent measurement**

Gains and losses arising on investment held for trading are recognized in profit and loss.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognized as other comprehensive income in the fair value reserve for available-for-sale financial assets. When the financial assets are sold, collected or otherwise disposed of, the related cumulative gain or loss recognized in the other comprehensive income is transferred to profit or loss. Interest earned whilst holding available-for-sale financial assets, held-to-maturity securities and financial assets at fair value through profit or loss is reported as interest income in the consolidated statement of comprehensive income.

**De-recognition**

A financial asset is derecognized when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Available-for-sale financial assets and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on de-recognition.

Held-to-maturity assets and loans and receivables are derecognized on the date they are transferred by the Group.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Offsetting**

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

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

**Specific instruments**

*Cash and cash equivalents:* Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

*Investment securities:* Investment securities are the financial assets that are classified as held-to-maturity financial assets and available-for-sale financial assets.

*Loans and advances to banks and customers:* Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

*Finance lease receivables:* Leases where substantially all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest method. Finance lease receivables are included in loans and advances to customers.

*Factoring receivables*: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortized cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

*Deposits, funds borrowed, debt securities issued and subordinated liabilities:* Deposits, funds borrowed, debt securities issued and subordinated liabilities are the Group's sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortized cost using the effective interest method.

**Impairment of financial assets**

***Assets carried at amortized cost***

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(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 is 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:
- adverse changes in the payment status of borrowers; or
- national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as non- performing.

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

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Assets carried at cost***

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

***Assets carried at fair value***

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to profit or loss.

### (j) Repurchase transactions

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

### (k) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The Group pursues only the properties for use according to their fair values in terms of separating the land and buildings within the context of IAS 16 as at 31 December 2015. As a result of the valuation by the independent appraisal company, revaluation difference of TL 652,348 after deferred tax effect is followed as the revaluation surplus under shareholder's equity.

Gains/losses arising from the disposal of the property and equipment are recognized in profit or loss and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense unless they extend the economic useful life of related asset.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods. Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

| **Property and equipment** | **Estimated useful lives (years)** | **Depreciation Rates (%)** |
|---|---|---|
| Buildings | 50 | 2 |
| Office equipment, furniture and fixture, and motor vehicles | 5-10 | 10-20 |
| Vehicles obtained through finance leases | 4-5 | 20-25 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both. The Group holds investment property as a consequence of the ongoing operations of its consolidated real estate and insurance companies.

Investment properties are measured initially at cost including transaction costs.

### (m) Intangible assets

The Group's intangible assets consist of software programs. Intangible assets are recorded at cost. The costs of the intangible assets purchased before 31 December 2005 are restated for the effects of inflation from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortization rates applied are between 33.33% and 6.67%.

### (n) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

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

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

### (o) Provisions

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

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Employee benefits

**Pension and other post-retirement obligations**

The Bank has a defined benefit plan for its employees as described below:

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

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

| | Employer % | Employee % |
|---|---|---|
| Pension contributions | 11.0 | 9.0 |
| Medical benefit contributions | 7.5 | 5.0 |

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008.

*Pension and medical benefits transferable to SSF:*

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 ("Banking Law") as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the "Social Insurance and General Health Insurance Law no. 5510'' published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335.

*Excess benefit not transferable to SSF:*

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

*Actuarial valuation:*

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated February 2016, there is no technical or actual deficit determined which requires provision against.

| **Transferable Retirement and Health Liabilities:** | **31 December 2015** | **31 December 2014** |
|---|---:|---:|
| Net Present Value of Transferable Retirement Liabilities | (4,364,906) | (3,830,972) |
| Net Present Value of Transferable Retirement and Health Contributions | 2,931,182 | 2,571,496 |
| General Administration Expenses | (64,883) | (57,671) |
| Present Value of Pension and Medical Benefits Transferable to SSF (1) | (1,498,607) | (1,317,147) |
| Fair Value of Plan Assets (2) | 3,898,590 | 3,949,235 |
| Asset Surplus over Transferable Benefits ((2)-(1)=(3)) | 2,399,983 | 2,632,088 |
| Non-Transferable Benefits (4) * | (1,336,045) | (1,003,169) |
| Asset Surplus over Total Benefits ((3)-(4)) | 1,063,938 | 1,628,919 |

(*) Non Transferable Benefits: Non Transferable Benefits are accepted to be continued after the transition of the Transferable Benefits to the SSF and be stated as liability in the Fund's articles (ruled by the law 5510, Provisional Article 20).

Actuarial assumptions used in valuation of Non Transferable Benefits based on IAS 19 are as follows:

| **Discount Rates** | **31 December 2015** | **31 December 2014** |
|---|---:|---:|
| Benefits Transferable to SSF | 9.80% | 9.80% |
| Non Transferable Benefits | 2,50% | 3.00% |

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Distribution of total assets of the Retirement Fund as of 31 December 2015 and 31 December 2014 is presented below:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Bank placements | 1,961,509,335 | 1,731,636,547 |
| Government Bonds and Treasury Bill, Fund and Accrual Interest Income | - | 9,459,019 |
| Tangible assets* | 1,693,252,486 | 1,976,352,665 |
| Other | 243,828,530 | 231,787,140 |
| **Total** | **3,898,590,351** | **3,949,235,371** |

(*) The tangible assets value indicates all the stocks' and real estate properties' market values, as of December 31, 2015.

**Reserve for employee severance indemnity**

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

**Other benefits to employees**

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

### (q) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

### (r) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

### (s) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

*Earned premiums:* For short-term insurance contracts, premiums are recognized as revenue, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are net of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognized as revenue. Premiums for such contracts are recognized directly as liabilities.

*Reserve for unearned premiums:* The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

*Reserve for outstanding claims:* The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends ("Actuarial Chain Ladder Method"). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

*Receivables from reinsurance activities:* In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. There receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

*Subrogation, salvage and quasi income:* The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

*Long term insurance contracts*: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies. Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

*Investment contracts*: Premiums received for such contracts are recognized directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

*Deferred acquisition cost and deferred commission income:* Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortized on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortized on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

*Liability adequacy test:* At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

### (t) Individual pension business

*Individual pension system receivables* presented under 'other assets' in the accompanying consolidated financial statements consists of 'receivable from pension investment funds for investment management fees', 'entrance fee receivable from participants' and 'receivables from the clearing house on behalf of the participants'. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated profit or loss and other comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants' contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years 'staying period'. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognize the entrance fee as revenue.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated profit or loss and other comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There are no potentially dilutive instruments. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

### (v) Subsequent events

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

### (w) Segment reporting

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

## 2.4 Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

## 3. FINANCIAL RISK MANAGEMENT

### (a) Introduction and overview

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

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

*Risk management framework*

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

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated 28 June 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

*Audit Committee:* The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. 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 Group, 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.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

*Management of credit risk*

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2015, consumer loans are excluded from the internal rating system of the Bank. The risks that are subject to rating models can be allocated as follows:

| Category as of 31 December 2015 | Share in the Total % |
|---|---|
| Above average | 42.97 |
| Average | 38.56 |
| Below average | 4.86 |
| Unrated | 13.61 |
| **Total** | **100.00** |

*Exposure to credit risk*

| | Loans and advances to customers | | Other assets expose to credit risk (inc. financial assets other than loans and advances to customers) | |
|---|---|---|---|---|
| | **31 December 2015** | **31 December 2014** | **31 December 2015** | **31 December 2014** |
| Individually impaired | 5,497,537 | 4,377,740 | 119,254 | 71,092 |
| Specific impairment | (4,347,651) | (3,486,879) | (99,318) | (56,480) |
| **Carrying amount** | **1,149,886** | **890,861** | **19,936** | **14,612** |
| Past due but not impaired | 4,761,044 | 3,883,127 | - | - |
| **Carrying amount** | **4,761,044** | **3,883,127** | **-** | **-** |
| Neither past due nor impaired | 120,016,130 | 101,948,402 | 65,865,438 | 67,123,501 |
| Loans with renegotiated terms | 1,776,743 | 1,185,094 | - | - |
| **Carrying amount** | **121,792,873** | **103,133,496** | **65,865,438** | **67,123,501** |
| Collective impairment | (1,847,931) | (1,352,083) | - | - |
| **Total carrying amount** | **125,855,872** | **106,555,401** | **65,885,374** | **67,138,113** |

As at 31 December 2015 and 2014, the Group has no allowance for loans and advances to banks and for investment securities.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

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

| Gross maximum exposure | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash and balances with central banks (excluding cash on hand) | 26,173,351 | 23,951,613 |
| Financial assets at fair value through profit or loss | 995,929 | 450,241 |
| Loans and advances to banks | 242,592 | 564,915 |
| Loans and advances to customers | 125,855,872 | 106,555,401 |
| Investment securities | 25,129,730 | 23,830,408 |
| Other financial assets | 644,859 | 545,184 |
| Other assets | 4,783,469 | 3,834,486 |
| **Total** | **183,825,802** | **159,732,248** |
| Financial guarantees | 33,119,901 | 28,675,047 |
| Loan commitments | 34,848,044 | 27,144,176 |
| **Total** | **67,967,945** | **55,819,223** |
| **Total credit risk exposure** | **251,793,747** | **215,551,471** |

Sectorial distribution of the performing loans and advances to customers

| | **31 December 2015** | | **31 December 2014** | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Consumer loans | 32,467,215 | 25.66 | 30,201,036 | 28.23 |
| *Mortgage loans* | 14,727,324 | 11.64 | *14,296,545* | *13.36* |
| *General purpose loans* | 14,971,049 | 11.83 | *11,771,140* | *11.00* |
| *Overdraft checking accounts* | 1,909,924 | 1.51 | *1,454,910* | *1.36* |
| *Auto loans* | 454,911 | 0.36 | *433,433* | *0.41* |
| *Other consumer loans* | 404,007 | 0.32 | *2,245,008* | *2.10* |
| Manufacturing | 13,077,220 | 10.33 | 10,549,177 | 9.86 |
| Wholesale and retail trade | 29,914,921 | 23.64 | 24,253,574 | 22.66 |
| Transportation and telecommunication | 7,996,444 | 6.32 | 9,625,212 | 8.99 |
| Construction | 10,951,872 | 8.65 | 7,409,653 | 6.92 |
| Credit cards | 5,227,850 | 4.13 | 4,926,370 | 4.60 |
| Hotel, food and beverage services | 3,019,882 | 2.39 | 1,316,239 | 1.23 |
| Financial institutions | 3,169,152 | 2.50 | 1,247,420 | 1.17 |
| Agriculture and stockbreeding | 1,461,369 | 1.15 | 912,676 | 0.85 |
| Health and social services | 1,756,548 | 1.39 | 2,350,042 | 2.20 |
| Others | 17,511,444 | 13.84 | 14,225,224 | 13.29 |
| **Total performing loans and advances to customers** | **126,553,917** | **100.00** | **107,016,623** | **100.00** |

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

The classification of financial assets based on their credit risks;

| **31 December 2015** | **Neither past due nor impaired** | **Past due or individually impaired, net** | **Allowance for impairment** | **Total** |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 995,929 | - | - | 995,929 |
| Loans and advances to banks | 242,592 | - | - | 242,592 |
| Loans and advances to customers | 126,553,917 | 5,497,537 | (6,195,582) | 125,855,872 |
| *Commercial* | *83,689,630* | *3,954,494* | *(4,078,280)* | *83,565,844* |
| *Consumer* | *32,467,215* | *1,091,392* | *(1,620,123)* | *31,938,484* |
| *Credit Cards* | *5,227,850* | *227,099* | *(256,160)* | *5,198,789* |
| *Other* | *5,169,222* | *224,552* | *(241,019)* | *5,152,755* |
| Investment securities | 25,129,730 | - | - | 25,129,730 |
| **Total** | **152,922,168** | **5,497,537** | **(6,195,582)** | **152,224,123** |

| **31 December 2014** | **Neither past due nor impaired** | **Past due or individually impaired, net** | **Allowance for impairment** | **Total** |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 450,241 | - | - | 450,241 |
| Loans and advances to banks | 564,915 | - | - | 564,915 |
| Loans and advances to customers | 107,016,623 | 4,377,740 | (4,838,962) | 106,555,401 |
| *Commercial* | *72,027,371* | *2,946,431* | *(3,256,855)* | *71,716,947* |
| *Consumer* | *30,242,057* | *1,237,115* | *(1,367,453)* | *30,111,719* |
| *Credit Cards* | *1,774,690* | *72,597* | *(80,246)* | *1,767,041* |
| *Other* | *2,972,505* | *121,597* | *(134,408)* | *2,959,694* |
| Investment securities | 23,830,408 | - | - | 23,830,408 |
| **Total** | **131,862,187** | **4,377,740** | **(4,838,962)** | **131,400,965** |

### 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. These loans are graded from 3 to 5 in the Group's internal credit risk grading system which is also in line with the regulations of BRSA.

### 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.

### 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.

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

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Loans and receivables | | |
| Commercial | 1,348,249 | 795,685 |
| Consumer | 408,408 | 381,197 |
| Credit Cards | 20,086 | 8,212 |
| **Total** | **1,776,743** | **1,185,094** |

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

**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**

The consolidated subsidiaries write off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures has been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Bank has not adopted a policy to write-off loans.

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

| | Loans and advances to customers | | Other assets | |
|---|---|---|---|---|
| **31 December 2015** | **Gross** | **Net** | **Gross (*)** | **Net (*)** |
| Grade 3 : Individually Impaired | 499,637 | 399,667 | - | - |
| Grade 4 : Individually Impaired | 996,190 | 607,729 | 3,222 | 2,798 |
| Grade 5 : Individually Impaired | 4,001,710 | 142,490 | 116,032 | 17,138 |
| **Total** | **5,497,537** | **1,149,886** | **119,254** | **19,936** |

| | Loans and advances to customers | | Other assets | |
|---|---|---|---|---|
| **31 December 2014** | **Gross** | **Net** | **Gross (*)** | **Net (*)** |
| Grade 3 : Individually Impaired | 306,778 | 245,959 | - | - |
| Grade 4 : Individually Impaired | 727,063 | 176,689 | 4,485 | 3,806 |
| Grade 5 : Individually Impaired | 3,343,899 | 468,213 | 66,607 | 10,806 |
| **Total** | **4,377,740** | **890,861** | **71,092** | **14,612** |

(*) Impaired insurance receivables are included in "Grade 4" and "Grade 5" in the above table.

*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. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 and 2014.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

The breakdown of performing cash loans and advances to customers and non-cash loans (financial guarantee contracts) by type of collateral are as follows:

| **Cash loans** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Secured loans: | 94,482,518 | 79,022,845 |
| *Secured by mortgages* | *38,397,870* | *32,404,989* |
| *Secured by cash collateral* | *850,494* | *684,191* |
| *Guarantees issued by financial institutions* | *768,672* | *94,178* |
| *Secured by government institutions or government securities* | *1,457,034* | *929,239* |
| *Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)* | *53,008,448* | *44,910,248* |
| Unsecured loans | 32,071,399 | 27,993,778 |
| **Total performing loans and advances to customers** | **126,553,917** | **107,016,623** |

| **Non-cash loans (financial guarantee contracts)** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Secured loans: | 14,300,379 | 12,534,623 |
| *Secured by mortgages* | 2,983,906 | *1,092,714* |
| *Secured by cash collateral* | 243,874 | *383,649* |
| *Guarantees issued by financial institutions* | 229,287 | - |
| *Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)* | 10,843,312 | *11,058,260* |
| Unsecured loans | 18,819,522 | 16,140,424 |
| **Total non-cash loans** | **33,119,901** | **28,675,047** |

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Cash collateral(*) | - | - |
| Mortgages | 1,918,201 | 1,223,252 |
| Promissory notes(*) | - | - |
| Others(**) | 567,249 | 361,068 |
| **Total** | **2,485,450** | **1,584,320** |

(*) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small / zero in the table.

(**) Sureties obtained for impaired loans are not presented in this table.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

*Sectorial and geographical concentration of impaired loans*

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **Sectorial concentration** | **Amount** | **%** | **Amount** | **%** |
| Consumer loans | 1,091,392 | 19.85 | 873,793 | 19.96 |
| Construction | 504,908 | 9.18 | 875,244 | 19.99 |
| Textile | 240,088 | 4.37 | 481,390 | 11.00 |
| Food | 378,856 | 6.89 | 126,146 | 2.88 |
| Service sector | 212,468 | 3.86 | 63,594 | 1.45 |
| Agriculture and stockbreeding | 134,833 | 2.45 | 385,029 | 8.80 |
| Metal and metal products | 167,958 | 3.06 | 63,923 | 1.46 |
| Durable consumer goods | 88,938 | 1.62 | 88,757 | 2.03 |
| Financial institutions | 45,306 | 0.82 | 9,900 | 0.23 |
| Others | 2,632,790 | 47.90 | 1,409,964 | 32.21 |
| **Total non-performing loans and advances to customers** | **5,497,537** | **100** | **4,377,740** | **100** |

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **Geographical concentration** | **Amount** | **%** | **Amount** | **%** |
| Turkey | 5,431,196 | 98.79 | 4,352,894 | 99.43 |
| Austria | 12,013 | 0.22 | 8,709 | 0.20 |
| Germany | 54,328 | 0.99 | 16,137 | 0.37 |
| Other | - | - | - | - |
| **Total non-performing loans and advances to customers** | **5,497,537** | **100** | **4,377,740** | **100** |

**Offsetting financial assets and financial liabilities**

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Financial instruments subject to such agreements include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

***Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements***

| | | | | | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|---|
| | **Types of financial assets** | **Gross amounts of recognized financial assets** | **Gross amounts of recognized financial liabilities offset in the statement of financial position** | **Net amounts of financial assets presented in the statement of financial position** | **Financial instruments** | **Cash collateral received** | **Net amount** |
| **31 December 2015** | | | | | | | |
| | Derivatives - trading assets | 885,467 | - | 885,467 | - | 885,467 | - |
| | Reverse repurchase agreements | 3,389 | - | 3,389 | 3,389 | - | - |
| **31 December 2014** | | | | | | | |
| | Derivatives - trading assets | 379,576 | - | 379,576 | - | 379,576 | - |
| | Reverse repurchase agreements | 5,859 | - | 5,859 | 5,859 | - | - |

| | | | | | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|---|
| | **Types of financial liabilities** | **Gross amounts of recognized financial assets** | **Gross amounts of recognized financial liabilities offset in the statement of financial position** | **Net amounts of financial assets presented in the statement of financial position** | **Financial instruments** | **Cash collateral given** | **Net amount** |
| **31 December 2015** | | | | | | | |
| | Derivatives - trading liabilities | 304,352 | - | 304,352 | - | 304,352 | - |
| | Repurchase agreements | 11,593,698 | - | 11,593,698 | 11,449,720 | 143,978 | - |
| **31 December 2014** | | | | | | | |
| | Derivatives - trading liabilities | 270,627 | - | 270,627 | - | 270,627 | - |
| | Repurchase agreements | 16,185,302 | - | 16,185,302 | 15,991,697 | 193,605 | - |

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

**Transferred of Financial Assets Held or Pledged as Collaterals**

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **Asset pledged** | **Asset** | **Related Liability** | **Asset** | **Related Liability** |
| Balances with other banks | 192,096 | - | 210,719 | - |
| Trading securities | 52,723 | - | 18,657 | - |
| *-Legal requirements* | *52,723* | - | *18,657* | - |
| Investment securities | 3,746,720 | - | 3,043,416 | - |
| - available-for-sale | 3,088,084 | - | 1,978,570 | - |
| *-Legal requirements* | *3,088,084* | - | *1,978,570* | - |
| - held-to-maturity | 658,636 | - | 1,064,846 | - |
| *-Legal requirements* | *658,636* | - | *1,064,846* | - |

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **Transferred asset that are not de-recognized** | **Asset** | **Related Liability** | **Asset** | **Related Liability** |
| Investment securities | | | | |
| -Available for sale portfolio | 6,269,330 | 5,875,039 | 11,801,059 | 11,665,207 |
| *-repurchase agreement* | *6,269,330* | *5,875,039* | *11,801,059* | *11,665,207* |
| Investment securities | | | | |
| -Held to maturity portfolio | 6,050,350 | 5,718,659 | 5,629,267 | 4,520,095 |
| *-repurchase agreement* | *6,050,350* | *5,718,659* | *5,629,267* | *4,520,095* |
| **Total** | **12,319,680** | **11,593,698** | **17,430,326** | **16,185,302** |

### (c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

*Management of liquidity risk*

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Consolidated liquidity coverage ratios for the last three months are presented below:

| | Current Period | |
|---|---|---|
| | **TL+FC** | **FC** |
| October 2015 | 100.98 | 180.55 |
| November 2015 | 99.10 | 187.80 |
| December 2015 | 109.55 | 186.07 |

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

*Exposure to liquidity risk*

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

*Maturity analysis of monetary assets and liabilities according to their remaining maturities:*

| 31 December 2015 | Demand | Less than one month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Carrying amount |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 25,587,504 | 1,875,969 | 149,889 | - | - | - | 27,613,362 |
| Financial assets at fair value through profit or loss | 15,557 | 113,337 | 63,130 | 76,534 | 654,329 | 73,042 | 995,929 |
| Loans and advances to banks | - | 1,596 | 34,144 | 206,852 | - | - | 242,592 |
| Loans and advances to customers | 940,214 | 3,981,735 | 4,596,818 | 33,093,417 | 53,128,998 | 30,114,690 | 125,855,872 |
| Investment securities | - | 507,374 | 163,684 | 2,248,919 | 11,759,512 | 10,255,099 | 24,934,588 |
| Other financial assets | 644,859 | - | - | - | - | - | 644,859 |
| Other assets | 1,025,150 | 1,013,076 | 1,091 | 2,856 | 478,226 | 1,230,725 | 3,751,124 |
| **Total assets** | **28,213,284** | **7,493,087** | **5,008,756** | **35,628,578** | **66,021,065** | **41,673,556** | **184,038,326** |
| Trading liabilities | 1,090 | 41,536 | 19,427 | 50,518 | 82,757 | 109,024 | 304,352 |
| Deposits from banks | 392,993 | 5,711,414 | 555,665 | 151,903 | - | - | 6,811,975 |
| Deposits from customers | 20,241,872 | 58,435,273 | 19,510,172 | 7,221,631 | 904,252 | 22,252 | 106,335,452 |
| Obligations under repurchase agreements | - | 9,982,671 | 1,148,950 | - | 397,450 | 64,627 | 11,593,698 |
| Funds borrowed | - | 613,644 | 963,332 | 10,070,012 | 3,319,125 | 5,228,934 | 20,195,047 |
| Debt securities issued | - | 1,179,387 | 1,234,924 | 1,974,005 | 6,258,392 | - | 10,646,708 |
| Subordinated liabilities | - | - | - | - | - | 4,155,551 | 4,155,551 |
| Corporate tax liability | - | - | 231,868 | 1,136 | - | - | 233,004 |
| Other liabilities and provisions | 2,932,909 | 3,792,878 | 94,250 | 2,348 | - | 3,400 | 6,825,785 |
| **Total liabilities** | **23,568,864** | **79,756,803** | **23,758,588** | **19,471,553** | **10,961,976** | **9,583,788** | **167,101,572** |
| **Net** | **4,644,420** | **(72,263,716)** | **(18,749,832)** | **16,157,025** | **55,059,089** | **32,089,768** | **16,936,754** |

| 31 December 2014 | Demand | Less than one month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Carrying amount |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 21,034,058 | 4,181,566 | 112,898 | - | - | - | 25,328,522 |
| Financial assets at fair value through profit or loss | 4,515 | 70,737 | 84,570 | 9,113 | 255,401 | 25,905 | 450,241 |
| Loans and advances to banks | - | 38,739 | 163,118 | 363,058 | - | - | 564,915 |
| Loans and advances to customers | 747,191 | 9,691,443 | 4,031,930 | 18,992,277 | 48,105,495 | 24,987,065 | 106,555,401 |
| Investment securities | - | 29,371 | 736,238 | 2,005,400 | 8,933,679 | 12,021,005 | 23,725,693 |
| Other financial assets | 545,184 | - | - | - | - | - | 545,184 |
| Other assets | 87,335 | 881,126 | 110 | 4,868 | 101,736 | 986,102 | 2,061,277 |
| **Total assets** | **22,418,283** | **14,892,982** | **5,128,864** | **21,374,716** | **57,396,311** | **38,020,077** | **159,231,233** |
| Trading liabilities | - | 127,878 | 23,050 | 11,320 | 43,074 | 65,305 | 270,627 |
| Deposits from banks | 66,930 | 4,658,116 | 472,397 | 22,912 | - | - | 5,220,355 |
| Deposits from customers | 16,987,146 | 44,830,633 | 19,065,572 | 6,895,393 | 714,711 | 18,322 | 88,511,777 |
| Obligations under repurchase agreements | - | 15,396,871 | 233,330 | 349,241 | - | 205,860 | 16,185,302 |
| Funds borrowed | - | 1,504,848 | 1,084,623 | 6,685,709 | 3,217,955 | 3,767,515 | 16,260,650 |
| Debt securities issued | - | 717,590 | 2,146,764 | 2,358,634 | 5,161,720 | - | 10,384,708 |
| Subordinated liabilities | - | - | - | - | - | 2,126,436 | 2,126,436 |
| Corporate tax liability | - | - | 248,173 | 1,767 | - | - | 249,940 |
| Other liabilities and provisions | 1,277,362 | 3,204,244 | 78,610 | 19,126 | 816 | 18,270 | 4,598,428 |
| **Total liabilities** | **18,331,438** | **70,440,180** | **23,352,519** | **16,344,102** | **9,138,276** | **6,201,708** | **143,808,223** |
| **Net** | **4,086,845** | **(55,547,198)** | **(18,223,655)** | **5,030,614** | **48,258,035** | **31,818,369** | **15,423,010** |

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

*Residual contractual maturities of the 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 |
|---|---|---|---|---|---|---|---|---|
| Trading Liabilities | 304,352 | 304,352 | 1,090 | 41,536 | 19,427 | 50,518 | 82,758 | 109,023 |
| Deposits from banks | 6,811,975 | 6,828,695 | 392,993 | 5,718,389 | 562,204 | 155,109 | - | - |
| Deposits from customers | 106,335,452 | 161,085,109 | 20,241,872 | 90,367,590 | 33,613,372 | 15,857,466 | 979,459 | 25,350 |
| Obligations under repurchase agreements | 11,593,698 | 11,608,333 | - | 9,992,097 | 1,151,513 | - | 399,406 | 65,317 |
| Funds borrowed | 20,195,047 | 21,775,456 | - | 619,943 | 977,891 | 10,192,539 | 3,767,715 | 6,217,368 |
| Debt securities issued | 10,646,708 | 11,398,974 | - | 1,185,490 | 1,246,388 | 2,031,028 | 6,936,068 | - |
| Subordinated liabilities | 4,155,551 | 6,075,579 | - | - | - | - | - | 6,075,579 |
| Other financial liabilities | 6,595,541 | 6,637,556 | 2,640,232 | 3,595,325 | 125,926 | 268,564 | 4,735 | 2,774 |
| **Total** | **166,638,324** | **225,714,054** | **23,276,187** | **111,520,370** | **37,696,721** | **28,555,224** | **12,170,141** | **12,495,411** |
| Loan guarantees | 33,119,901 | 33,119,901 | 2,670,110 | 951,139 | 19,396,626 | 5,498,569 | 4,078,818 | 524,639 |
| Loan commitments | 34,848,044 | 34,848,044 | 34,848,044 | - | - | - | - | - |
| **Total Loan guarantees and commitments** | **67,967,945** | **67,967,945** | **37,518,154** | **951,139** | **19,396,626** | **5,498,569** | **4,078,818** | **524,639** |

| 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 |
|---|---|---|---|---|---|---|---|---|
| Trading Liabilities | 270,627 | 270,627 | - | 127,878 | 23,050 | 11,320 | 43,074 | 65,305 |
| Deposits from banks | 5,220,355 | 5,224,151 | 66,930 | 4,659,544 | 473,665 | 24,012 | - | - |
| Deposits from customers | 88,511,777 | 89,071,829 | 16,987,146 | 44,956,783 | 19,269,411 | 7,074,231 | 762,575 | 21,683 |
| Obligations under repurchase agreements | 16,185,302 | 16,196,415 | - | 15,404,379 | 233,628 | 351,133 | - | 207,275 |
| Funds borrowed | 16,260,650 | 17,263,831 | - | 1,511,280 | 1,092,397 | 6,771,654 | 3,519,833 | 4,368,667 |
| Debt securities issued | 10,384,708 | 11,236,567 | - | 713,864 | 2,166,332 | 2,401,993 | 5,954,378 | - |
| Subordinated liabilities | 2,126,436 | 3,078,646 | - | - | - | - | - | 3,078,646 |
| Other financial liabilities | 4,753,714 | 4,704,559 | 1,547,591 | 3,060,074 | 75,466 | 4,860 | 816 | 15,752 |
| **Total** | **143,713,569** | **147,046,625** | **18,601,667** | **70,433,802** | **23,333,949** | **16,639,203** | **10,280,676** | **7,757,328** |
| Loan guarantees | 28,675,047 | 28,675,047 | 243,079 | 835,912 | 16,443,803 | 6,930,286 | 3,538,426 | 683,541 |
| Loan commitments | 27,144,176 | 27,144,176 | 27,144,176 | - | - | - | - | - |
| **Total Loan guarantees and commitments** | **55,819,223** | **55,819,223** | **27,387,255** | **835,912** | **16,443,803** | **6,930,286** | **3,538,426** | **683,541** |

The above table shows the undiscounted cash flows of the Group’s financial liabilities on the basis of their earliest possible contractual maturity. The Group’s expected cash flows on these instruments may vary significantly from this analysis.

### (d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

*Management of market risk*

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

*Exposure to market risk - trading portfolios*

The market risk arising from the trading portfolio is monitored, measured and reported using Standardized Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared by using Standardized Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

Average, highest and lowest values of consolidated market risks for the years ended 31 December 2015 and 2014, calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012, are as follows:

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Average** | **Highest** | **Lowest** | **Average** | **Highest** | **Lowest** |
| Interest rate risk | 19,122 | 20,694 | 16,707 | 13,531 | 16,953 | 11,352 |
| Common share risk | 2,146 | 4,867 | 1,193 | 1,895 | 6,896 | 759 |
| Currency risk | 65,927 | 96,124 | 26,301 | 30,771 | 44,194 | 15,679 |
| Option risk | 173 | 611 | 23 | 1,677 | 3,804 | 42 |
| Counter party risk | 17,806 | 24,180 | 12,975 | 9,912 | 11,892 | 8,464 |
| **Total value at risk** | **1,314,668** | **1,697,191** | **744,075** | **722,326** | **917,761** | **514,258** |

*Exposure to interest rate risk – non-trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

| **31 December 2015** | **Less than one month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Non-interest bearing** | **Carrying amount** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 18,308,913 | 149,889 | - | - | - | 9,154,560 | 27,613,362 |
| Loans and advances to banks | 1,596 | 129,191 | 111,805 | - | - | - | 242,592 |
| Loans and advances to customers | 41,661,197 | 26,347,280 | 26,694,491 | 19,988,968 | 10,355,790 | 808,146 | 125,855,872 |
| Investment securities | 3,399,197 | 4,271,223 | 8,063,560 | 6,568,921 | 2,676,236 | 150,593 | 25,129,730 |
| Other financial assets | - | - | - | - | - | 644,859 | 644,859 |
| Other assets | 48,474 | 734 | 2,856 | 26,777 | 1,963 | 2,699,293 | 2,780,097 |
| **Total assets** | **63,419,377** | **30,898,317** | **34,872,712** | **26,584,666** | **13,033,989** | **13,457,451** | **182,266,512** |
| Trading liabilities | 41,536 | 42,451 | 50,518 | 59,733 | 109,024 | 1,090 | 304,352 |
| Deposits from banks | 5,711,484 | 555,665 | 151,903 | - | - | 392,923 | 6,811,975 |
| Deposits from customers | 58,728,128 | 19,668,358 | 7,262,399 | 777,354 | 16,558 | 19,882,655 | 106,335,452 |
| Obligations under repurchase agreements | 9,982,671 | 1,148,950 | - | 397,450 | 64,627 | - | 11,593,698 |
| Funds borrowed | 3,683,934 | 7,684,616 | 5,500,813 | 929,920 | 2,395,764 | - | 20,195,047 |
| Debt securities issued | 1,179,387 | 1,235,096 | 2,244,042 | 5,988,183 | - | - | 10,646,708 |
| Subordinated liabilities | - | 49,874 | 194,762 | 843,528 | 3,067,387 | - | 4,155,551 |
| Corporate tax liability | - | - | 1,136 | - | - | 231,868 | 233,004 |
| Other liabilities and provisions | 4,174 | 8,558 | - | - | - | 6,813,056 | 6,825,788 |
| **Total liabilities** | **79,331,314** | **30,393,568** | **15,405,573** | **8,996,168** | **5,653,360** | **27,321,592** | **167,101,575** |
| **Net** | **(15,911,937)** | **504,749** | **19,467,139** | **17,588,498** | **7,380,629** | **(13,864,141)** | **15,164,937** |

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2014 | Less than one month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-interest bearing | Carrying amount |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 6,016,124 | 104,898 | - | - | - | 19,207,500 | 25,328,522 |
| Loans and advances to banks | 100,906 | 270,160 | 193,849 | - | - | - | 564,915 |
| Loans and advances to customers | 32,105,647 | 22,597,164 | 21,965,248 | 18,574,756 | 10,599,348 | 713,238 | 106,555,401 |
| Investment securities | 2,948,678 | 3,592,447 | 8,422,088 | 4,622,261 | 4,177,339 | 67,595 | 23,830,408 |
| Other financial assets | - | - | - | - | - | 545,184 | 545,184 |
| Other assets | 15,993 | 110 | 4,868 | 47,165 | 528 | 2,013,217 | 2,081,881 |
| **Total assets** | **41,187,348** | **26,564,779** | **30,586,053** | **23,244,182** | **14,777,215** | **22,546,734** | **158,906,311** |
| Trading liabilities | 127,878 | 23,050 | 11,320 | 43,074 | 65,305 | - | 270,627 |
| Deposits from banks | 4,658,116 | 472,397 | 22,912 | - | - | 66,930 | 5,220,355 |
| Deposits from customers | 45,015,178 | 19,158,621 | 6,861,948 | 709,034 | 18,322 | 16,748,674 | 88,511,777 |
| Obligations under repurchase agreements | 15,396,871 | 233,330 | 349,241 | - | 205,860 | - | 16,185,302 |
| Funds borrowed | 4,063,185 | 7,002,548 | 3,733,893 | 717,541 | 743,483 | - | 16,260,650 |
| Debt securities issued | 718,111 | 2,146,929 | 2,579,188 | 4,940,480 | - | - | 10,384,708 |
| Subordinated liabilities | - | - | 121,216 | 421,313 | 1,583,907 | - | 2,126,436 |
| Corporate tax liability | - | - | 656 | - | - | 249,284 | 249,940 |
| Other liabilities and provisions | 20,257 | 6,936 | 390 | - | - | 4,572,921 | 4,600,504 |
| **Total liabilities** | **69,999,596** | **29,043,811** | **13,680,764** | **6,831,442** | **2,616,877** | **21,637,809** | **143,810,299** |
| **Net** | **(28,812,248)** | **(2,479,032)** | **16,905,289** | **16,412,740** | **12,160,338** | **908,925** | **15,096,012** |

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended 31 December 2015 and 2014:

| 31 December 2015 | US Dollar % | EUR % | TL% |
|---|---|---|---|
| Cash and cash equivalents | 0.48 | 0.24 | 8.71 |
| Financial assets at fair value through profit or loss | 11.78 | 5.50 | 11.39 |
| Loans and advances to banks | 3.62 | 0.41 | 13.66 |
| Loans and advances to customers | 4.69 | 3.77 | 12.10 |
| Investment securities | 6.61 | 4.35 | 6.44 |
| Deposits from banks | 0.67 | 0.71 | 12.24 |
| Deposits from customers | 2.07 | 1.73 | 10.77 |
| Obligations under repurchase agreements | 1.08 | - | 8.42 |
| Debt securities issued | 4.44 | 2.72 | 10.93 |
| Subordinated liabilities | 6.31 | - | - |
| Funds borrowed | 1.87 | 1.07 | 11.83 |

| 31 December 2014 | US Dollar % | EUR % | TL% |
|---|---|---|---|
| Cash and cash equivalents | 0.33 | 0.29 | 3.22 |
| Financial assets at fair value through profit or loss | 11.78 | 5.5 | 11.45 |
| Loans and advances to banks | 0.16 | 0.53 | 10.47 |
| Loans and advances to customers | 5.39 | 4.19 | 12.7 |
| Investment securities | 6.73 | 4.27 | 6.62 |
| Deposits from banks | 0.42 | 0.66 | 9.07 |
| Deposits from customers | 2.13 | 1.98 | 9.22 |
| Obligations under repurchase agreements | 0.95 | - | 9.79 |
| Debt securities issued | 3.45 | 3.47 | 9.06 |
| Subordinated liabilities | 6 | - | - |
| Funds borrowed | 1.67 | 1.13 | 8.44 |

*Currency risk*

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

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### Management of currency risk

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

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

| | EUR / TL | USD / TL |
|---|---|---|
| 31 December 2013 | 2.95 | 2.14 |
| 31 December 2014 | 2.82 | 2.32 |
| 31 December 2015 | 3.16 | 2.91 |

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

### Measurement Frequency of Interest Rate Risk

Interest rate risk arising from banking book accounts is calculated in accordance with “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” published in the 23 August 2011 dated Official Gazette no. 28034. Legal limit is monthly monitored and reported accordingly.

The economic value changes arising from the interest rate fluctuations which are measured according to “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” are presented in the below table:

| Currency Unit-Current Period | Applied Shock (+/- x base point) | Gain/ Loss | Gain/ Equity-Loss/ Equity |
|---|---|---|---|
| 1. TL | 500 / (400) | (2,022,909) / 1,994,966 | (%9.45) / %9.32 |
| 2. EURO | 200 / (200) | 237,097 / (30,443) | %1.11 / (%0.14) |
| 3. USD | 200 / (200) | 592,183 / (522,416) | %2.76 / (%2.44) |
| **Total (For Negative Shocks)** | - | **1,442,107** | **6.74%** |
| **Total (For Positive Shocks)** | - | **(1,193,629)** | **(5.58%)** |

| Currency Unit-Prior Period | Applied Shock (+/- x base point) | Gain/ Loss | Gain/ Equity-Loss/ Equity |
|---|---|---|---|
| 1. TL | 500 / (400) | (2,440,546) / 2,452,172 | (13.54%) / 13.61% |
| 2. EURO | 200 / (200) | 178,773 / (9,440) | 0.99% / (0.05%) |
| 3. USD | 200 / (200) | 441,639 / (383,071) | 2.45% / (2.13%) |
| **Total (For Negative Shocks)** | - | **2,059,661** | **11.43%** |
| **Total (For Positive Shocks)** | - | **(1,820,134)** | **(10.10%)** |

The above table is obtained from unconsolidated 31 December 2015 audit report announced at Public Disclosure Platform.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2015 | US Dollar | EUR | Other currencies | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 22,540,638 | 7,521,262 | 4,423,983 | 34,485,883 |
| Financial assets at fair value through profit or loss | 107,382 | 99,587 | - | 206,969 |
| Loans and advances to banks | 1,210 | 49,690 | 661 | 51,561 |
| Loans and advances to customers | 27,011,160 | 11,787,835 | 31,650 | 38,830,645 |
| Investment securities | 3,719,820 | 977,075 | - | 4,696,895 |
| Other financial assets | 573,654 | 71,206 | - | 644,860 |
| Other assets | 940,627 | 764,355 | 705 | 1,705,687 |
| **Total foreign currency denominated monetary assets** | **54,894,491** | **21,271,010** | **4,456,999** | **80,622,500** |
| Deposits from banks | 3,360,282 | 169,879 | 44,199 | 3,574,360 |
| Deposits from customers | 18,394,398 | 10,656,128 | 763,473 | 29,813,999 |
| Obligations under repurchase agreements | 3,403,437 | - | - | 3,403,437 |
| Debt securities issued | 5,186,409 | 2,206,648 | 12,110 | 7,405,167 |
| Funds borrowed | 10,782,368 | 8,475,276 | 1,076 | 19,258,720 |
| Subordinated liabilities | 4,155,551 | - | - | 4,155,551 |
| Other liabilities | 1,960,807 | 609,664 | 46,136 | 2,616,607 |
| **Total foreign currency denominated monetary liabilities** | **47,243,252** | **22,117,595** | **866,994** | **70,227,841** |
| **Net statement of financial position** | **7,651,239** | **(846,585)** | **3,590,005** | **10,394,659** |
| **Net off balance sheet position** | **(510,289)** | **5,417,441** | **(3,577,895)** | **1,329,257** |
| **Net long/(short) position** | **7,140,950** | **4,570,856** | **12,110** | **11,723,916** |

| 31 December 2014 | US Dollar | EUR | Other currencies | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 13,824,924 | 2,044,420 | 4,354,203 | 20,223,547 |
| Financial assets at fair value through profit or loss | 34,669 | 4,432 | - | 39,101 |
| Loans and advances to banks | 108,352 | 190,505 | - | 298,857 |
| Loans and advances to customers | 22,205,699 | 8,394,909 | 28,389 | 30,628,997 |
| Investment securities | 3,071,394 | 819,967 | - | 3,891,361 |
| Other financial assets | 476,652 | 6,828 | 61,704 | 545,184 |
| Other assets | 561,144 | 576,957 | 2,117 | 1,140,218 |
| **Total foreign currency denominated monetary assets** | **40,282,834** | **12,038,018** | **4,446,413** | **56,767,265** |
| Deposits from banks | 2,770,136 | 640,393 | 16,518 | 3,427,047 |
| Deposits from customers | 12,421,038 | 9,221,134 | 948,581 | 22,590,753 |
| Obligations under repurchase agreements | 6,591,668 | - | - | 6,591,668 |
| Debt securities issued | 6,073,635 | 1,459,110 | - | 7,532,745 |
| Funds borrowed | 9,064,674 | 5,758,810 | 2,640 | 14,826,124 |
| Subordinated liabilities | 2,126,436 | - | - | 2,126,436 |
| Other liabilities | 1,126,870 | 250,194 | 45,321 | 1,422,385 |
| **Total foreign currency denominated monetary liabilities** | **40,174,457** | **17,329,641** | **1,013,060** | **58,517,158** |
| **Net statement of financial position** | **108,377** | **(5,291,623)** | **3,433,353** | **(1,749,893)** |
| **Net off balance sheet position** | **372,635** | **5,171,951** | **(3,430,091)** | **2,114,495** |
| **Net long/(short) position** | **481,012** | **(119,672)** | **3,262** | **364,602** |

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

*Exposure to currency risk*

10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2015 and 2014 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Profit or loss** | **Equity** | **Profit or loss** | **Equity** |
| US Dollar | 714,095 | 714,540 | 48,101 | 48,101 |
| EUR | 457,086 | 457,086 | (11,967) | (11,967) |
| Other currencies | 1,211 | 1,211 | 326 | 326 |
| **Total, net** | **1,172,392** | **1,172,837** | **36,460** | **36,460** |

10 percent revaluation of the TL against the following currencies as at and for years ended 31 December 2015 and 2014 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Profit or loss** | **Equity** | **Profit or loss** | **Equity** |
| US Dollar | (714,095) | (714,540) | (48,101) | (48,101) |
| EUR | (457,086) | (457,086) | 11,967 | 11,967 |
| Other currencies | (1,211) | (1,211) | (326) | (326) |
| **Total, net** | **(1,172,392)** | **(1,172,837)** | **(36,460)** | **(36,460)** |

This analysis assumes that all other variables, in particular interest rates, remain constant.

*Fair value information*

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortized cost are not materially different than their recorded values except for those of loans and advances to customers, investment securities and deposit from customers. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, funds borrowed and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

*Loans and Receivables*

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

*Investment Securities Held-to-Maturity*

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

*Deposits from customers*

The estimated fair value of deposits from other banks and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

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

| | **Carrying amount** | | **Fair value** | |
|---|---|---|---|---|
| | **31 December 2015** | **31 December 2014** | **31 December 2015** | **31 December 2014** |
| **Financial assets** | | | | |
| Loans and advances to customers | 125,855,872 | 106,555,401 | 125,564,286 | 106,402,288 |
| Financial assets at fair value through profit or loss | 995,929 | 450,241 | 995,929 | 450,241 |
| Investment securities | 25,129,730 | 23,830,408 | 24,948,077 | 23,959,408 |
| *Available-for-sale financial assets* | *17,452,001* | *16,975,815* | *17,452,001* | *16,975,815* |
| *Held-to-maturity investment securities* | *7,677,729* | *6,854,593* | *7,496,076* | *6,983,593* |
| **Financial liabilities** | | | | |
| Deposits from other banks | 6,811,975 | 5,220,355 | 6,811,975 | 5,220,355 |
| Deposits from customers | 106,335,452 | 88,511,777 | 106,332,155 | 88,556,115 |
| Funds borrowed | 20,195,047 | 16,260,650 | 20,195,047 | 16,260,650 |

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

| **31 December 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Asset carried at fair value** | | | | |
| Financial assets at fair value through profit/loss | | | | |
| Debt securities | 69,685 | 25,711 | - | 95,396 |
| Derivative financial assets held for trading purpose | - | 885,467 | - | 885,467 |
| Investment funds | 13,234 | - | - | 13,234 |
| Equity securities | 1,832 | - | - | 1,832 |
| Investment securities - available-for-sale | | | | |
| Debt securities | 14,322,018 | 2,934,840 | 1,260 | 17,258,118 |
| Equity securities | - | - | 148,584(*) | 148,584 |
| **Asset for which fair values are disclosed-** | | | | |
| Debt securities – held-to-maturity | 7,496,076 | - | - | 7,496,076 |
| **Total financial assets** | **21,902,845** | **3,846,018** | **149,844** | **25,898,707** |
| Financial liabilities held for trading purpose | | | | |
| Derivative financial liabilities held for trading purpose | - | (304,352) | - | (304,352) |
| **Total financial liabilities** | - | (304,352) | - | (304,352) |

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Asset carried at fair value** | | | | |
| Financial assets at fair value through profit/loss | | | | |
| Debt securities | 10,798 | 55,355 | - | 66,153 |
| Derivative financial assets held for trading purpose | - | 379,576 | - | 379,576 |
| Investment funds | 2,947 | - | - | 2,947 |
| Equity securities | 1,565 | - | - | 1,565 |
| Investment securities - available-for-sale | | | | |
| Debt securities | 15,378,036 | 1,493,064 | 1,260 | 16,872,360 |
| Equity securities | - | - | 62,112(*) | 62,112 |
| **Asset for which fair values are disclosed** | | | | |
| Debt securities - held-to-maturity | 6,983,593 | - | - | 6,983,593 |
| **Total financial assets** | **22,376,939** | **1,927,995** | **63,372** | **24,368,306** |
| Financial liabilities held for trading purpose | | | | |
| Derivative financial liabilities held for trading purpose | - | (270,627) | - | (270,627) |
| **Total financial liabilities** | **-** | **(270,627)** | **-** | **(270,627)** |

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Balance at the beginning of the year | 63,372 | 54,850 |
| Total gains or losses for the year recognized in profit or loss | - | - |
| Total gains or losses for the year recognized in other comprehensive income | 86,472 | 8,522 |
| **Balance at the end of the year** | **149,844** | **63,372** |

### (e) 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 behavior. 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 as a 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 framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses may be 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 third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in 28 June 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at 31 December 2015, value of consolidated operational risk amounted to TL 10,950,128 (31 December 2014: TL 9,609,040).

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

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### (f) Capital management - regulatory capital

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

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

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

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2015 and 2014 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

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

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

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 31 December 2015 | 31 December 2014 | 31 December 2015 | 31 December 2014 |
| Capital Requirement for Credit Risk (CRCR) | 11,200,599 | 9,782,654 | 10,807,979 | 9,490,415 |
| Capital Requirement for Market Risk (CRMR) | 116,352 | 63,924 | 99,515 | 55,940 |
| Capital Requirement for Operational Risk (CROR) | 876,010 | 768,723 | 879,185 | 777,799 |
| Common Equity Tier 1 Capital | 16,810,344 | 14,824,597 | 16,595,144 | 14,646,457 |
| Tier 1 Capital | 16,689,422 | 14,694,809 | 16,492,378 | 14,533,844 |
| Tier 2 Capital | 5,101,213 | 3,639,371 | 5,045,078 | 3,600,527 |
| Deductions from Capital | (138,811) | (121,208) | (138,811) | (121,208) |
| Total Capital | 21,651,824 | 18,212,972 | 21,398,645 | 18,013,163 |
| Total Capital /((CRCR+CRMR+CROR)*12.5)*100 | 14.21 | 13.73 | 14.52 | 13.96 |
| Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100 | 10.95 | 11.07 | 11.19 | 11.26 |
| Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100 | 11.03 | 11.17 | 11.26 | 11.35 |

## 4. INSURANCE RISK MANAGEMENT

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

**Pricing policies**

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

**Management of risks**

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.
The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

**Concentration of insurance risk**

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

## 4. INSURANCE RISK MANAGEMENT (Continued)

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

**Reinsurance**

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,
ii) Long-term relationship approach,
iii) Competitive prices
iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

## 5. SEGMENT REPORTING

**Geographical information**

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

**Operating segments**

The Group has six 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. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. 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 and commercial banking:** Includes loans, deposits and other transactions and balances with corporate customers.

**Investment banking:** Includes the Group's trading and corporate finance activities.
This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

**Insurance:** Includes the Group's insurance business.

**Leasing:** Includes the Group's finance lease business.

**Factoring:** Includes the Group's factoring business.

**Others:** Includes combined information about operating segments that do not meet the quantitative thresholds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

## 5. SEGMENT REPORTING (Continued)

### Information about operating segments

| 31 December 2015 | Retail Banking | Corporate Banking | Investment Banking | Unallocated | Total Banking | Insurance | Leasing | Factoring | Others | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest income on loan and receivables | 4,219,050 | 7,387,351 | - | - | 11,606,401 | - | 102,831 | - | 2017 | 11,711,249 | (12,982) | 11,698,267 |
| Interest expense on deposit | (2,558,344) | (3,424,924) | (190,507) | - | (6,173,775) | - | - | - | - | (6,173,775) | 66,996 | (6,106,779) |
| **Operating profit** | **1,526,256** | **4,147,363** | **457,224** | **(483,974)** | **5,646,869** | **1,184,534** | **42,714** | **24,193** | **97,748** | **6,996,058** | **(212,166)** | **6,783,892** |
| Profit before income tax | 778,944 | 2,584,955 | (31,562) | (1,430,945) | 1,901,392 | (143,853) | 28,520 | 18,074 | 37,270 | 1,841,403 | (7,725) | 1,833,678 |
| Income tax expense | (148,317) | (492,196) | 6,010 | 272,463 | (362,040) | 22,967 | (4,844) | (4,025) | (2,830) | (350,772) | - | (350,772) |
| **Profit for the year** | **630,627** | **2,092,759** | **(25,552)** | **(1,158,482)** | **1,539,352** | **(120,886)** | **23,676** | **14,049** | **34,440** | **1,490,631** | **(7,725)** | **1,482,906** |

| 31 December 2015 | Retail Banking | Corporate Banking | Investment Banking | Unallocated | Total Banking | Insurance | Leasing | Factoring | Others | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Segment assets | 36,859,220 | 87,069,824 | 51,841,800 | 6,973,249 | 182,744,093 | 2,667,552 | 1,502,346 | 778,226 | 1,201,700 | 188,893,917 | (1,043,340) | 187,850,577 |
| Investments in associates and subsidiaries | - | - | 1,769,569 | - | 1,769,569 | 301,655 | 3,226 | 2,620 | 56,464 | 2,133,534 | (1,870,352) | 263,182 |
| Investment in equity accounted investees | - | - | - | - | - | - | - | - | - | - | - | - |
| **Total assets** | **36,859,220** | **87,069,824** | **53,611,369** | **6,973,249** | **184,513,662** | **2,969,207** | **1,505,572** | **780,846** | **1,258,164** | **191,027,451** | **(2,913,692)** | **188,113,759** |
| Segment liabilities | 47,588,682 | 59,301,593 | 52,007,978 | 7,841,259 | 166,739,512 | 2,487,029 | 1,361,930 | 675,117 | 189,200 | 171,452,788 | (1,081,696) | 170,371,092 |
| Equity including non-controlling interest | - | - | - | 17,774,151 | 17,774,151 | 482,178 | 143,642 | 105,729 | 1,068,964 | 19,574,664 | (1,831,997) | 17,742,667 |
| **Total liabilities and equity** | **47,588,682** | **59,301,593** | **52,007,978** | **25,615,410** | **184,513,663** | **2,969,207** | **1,505,572** | **780,846** | **1,258,164** | **191,027,452** | **(2,913,693)** | **188,113,759** |
| Tangible fixed assets | - | - | - | (209,841) | (209,841) | - | - | - | - | (209,841) | - | (209,841) |
| Intangible fixed assets | - | - | - | 197,793 | 197,793 | - | - | - | - | 197,793 | - | 197,793 |
| Depreciation | - | - | - | (209,190) | (209,190) | - | - | - | - | (209,190) | - | (209,190) |
| Amortization | - | - | - | 30,269 | 30,269 | - | - | - | - | 30,269 | - | 30,269 |

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

## 5. SEGMENT REPORTING (Continued)

| 31 December 2014 | Retail Banking | Corporate Banking | Investment Banking | Unallocated | Total Banking | Insurance | Leasing | Factoring | Others | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest income on loan and receivables | 3,574,283 | 5,821,752 | - | - | 9,396,035 | - | 80,776 | - | 1,288 | 9,478,099 | (5,651) | 9,472,448 |
| Interest expense on deposit | (2,090,867) | (2,836,627) | (162,890) | - | (5,090,384) | - | - | - | - | (5,090,384) | 57,241 | (5,033,143) |
| **Operating profit** | **1,782,029** | **2,991,503** | **1,011,510** | **(616,002)** | **5,169,040** | **940,831** | **14,660** | **17,275** | **73,865** | **6,215,671** | **(196,914)** | **6,018,757** |
| Profit before income tax | 1,006,380 | 1,449,945 | 569,760 | (1,051,767) | 1,974,318 | 35,068 | 912 | 12,050 | 34,327 | 2,056,675 | (17,867) | 2,038,808 |
| Income tax expense | (177,017) | (255,037) | (100,217) | 185,000 | (347,271) | (10,536) | (4,733) | (284) | (293) | (363,117) | - | (363,117) |
| **Profit for the year** | **829,363** | **1,194,908** | **469,543** | **(866,767)** | **1,627,047** | **24,532** | **(3,821)** | **11,766** | **34,034** | **1,693,558** | **(17,867)** | **1,675,691** |

| 31 December 2014 | Retail Banking | Corporate Banking | Investment Banking | Unallocated | Total Banking | Insurance | Leasing | Factoring | Others | Combined | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Segment assets | 32,963,634 | 72,041,167 | 48,117,179 | 5,553,602 | 158,675,582 | 2,151,333 | 1,198,199 | 537,945 | 1,276,806 | 163,839,865 | (1,242,443) | 162,597,422 |
| Investments in associates and subsidiaries | - | - | 1,669,015 | - | 1,669,015 | 246,585 | 3,359 | 2,601 | 44,089 | 1,965,649 | (1,705,691) | 259,958 |
| Investment in equity accounted investees | - | - | (30,356) | - | (30,356) | - | - | - | - | (30,356) | - | (30,356) |
| **Total assets** | **32,963,634** | **72,041,167** | **49,755,838** | **5,553,602** | **160,314,241** | **2,397,918** | **1,201,558** | **540,546** | **1,320,895** | **165,775,158** | **(2,948,134)** | **162,827,024** |
| Segment liabilities | 38,649,556 | 55,659,039 | 44,040,940 | 5,851,750 | 144,201,285 | 1,988,291 | 1,096,587 | 448,827 | 296,132 | 148,031,122 | (1,270,824) | 146,760,298 |
| Equity including non-controlling interest | - | - | - | 16,112,956 | 16,112,956 | 409,627 | 104,971 | 91,719 | 1,024,763 | 17,744,036 | (1,677,310) | 16,066,726 |
| **Total liabilities and equity** | **38,649,556** | **55,659,039** | **44,040,940** | **21,964,706** | **160,314,241** | **2,397,918** | **1,201,558** | **540,546** | **1,320,895** | **165,775,158** | **(2,948,134)** | **162,827,024** |
| Tangible fixed assets | - | - | - | 204,782 | 204,782 | - | - | - | - | - | - | 204,782 |
| Intangible fixed assets | - | - | - | 47,256 | 47,256 | - | - | - | - | - | - | 47,256 |
| Depreciation | - | - | - | 93,539 | 93,539 | - | - | - | - | - | - | 93,539 |
| Amortization | - | - | - | 13,021 | 13,021 | - | - | - | - | - | - | 13,021 |

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

## 6. CASH AND CASH EQUIVALENTS

As at 31 December 2015 and 2014, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash on hand | 1,440,011 | 1,376,909 |
| Due from Central Bank | 18,441,151 | 16,157,726 |
| Balances with the CBRT excluding reserve deposits | 1,393,197 | 4,282,966 |
| Receivables from repurchase agreements | 6,699 | 9,504 |
| Loans and advances to banks with original maturity less than three months | 6,115,662 | 3,426,867 |
| Others | 216,642 | 74,550 |
| **Total cash and cash equivalents in the consolidated statement of financial position** | **27,613,362** | **25,328,522** |
| Accruals on cash and cash equivalents | (24,559) | (3,494) |
| Blocked bank deposits | (192,096) | (210,719) |
| **Total cash and cash equivalents in the consolidated statement of cash flows** | **27,396,707** | **25,114,309** |

As at 31 December 2015, there is no balance of the additional reserve requirements of Central Bank of Republic of Turkey (“CBRT”) as explained below in detail (31 December 2014: None). TL 77,156 of blocked bank deposits which amounts TL 192,096, held against the “Diversified Payment Rights” securitizations and TL 113,585 held against insurance liabilities of the Group in favor of the Turkish Treasury.

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

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2015 and 2014, financial assets at fair value through profit or loss are as follows:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Face Value** | **Carrying Value** | **Face Value** | **Carrying Value** |
| *Debt instruments held at fair value:* | | | | |
| Government bonds in TL | 300 | 311 | 100 | 103 |
| Asset-backed securities | - | - | 13,750 | 13,546 |
| Eurobonds issued by the Turkish Government | 7,199 | 9,566 | 6,139 | 8,468 |
| Corporate bonds in TL | 82,924 | 82,245 | 13,500 | 13,630 |
| Bonds issued by banks | 3,350 | 3,274 | 23,718 | 23,482 |
| | | **95,396** | | **59,229** |
| *Equity and other non-fixed income instruments:* | | | | |
| Derivative financial instruments held for trading purposes | | 885,467 | | 379,576 |
| Investment funds | | 13,234 | | 9,871 |
| Equity shares | | 1,832 | | 1,565 |
| | | **900,533** | | **391,012** |
| **Total financial assets at fair value through profit or loss** | | **995,929** | | **450,241** |

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended 31 December 2015, net income from trading of financial assets (including investment securities) amounting to TL 26,998 (31 December 2014: TL 139,659) is included in "trading income".

The following table summarizes securities that were deposited as collateral with respect to various banking transactions:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Face Value** | **Carrying Value** | **Face Value** | **Carrying Value** |
| Deposited at Turkish Treasury for insurance operations | 2,347 | 9,566 | 12,347 | 18,554 |
| Deposited at Istanbul Stock Exchange for repurchase transactions | - | - | - | - |
| Deposited at Istanbul Stock Exchange for Capital Markets Board certifications | 44,490 | 43,157 | 100 | 103 |
| | | **52,723** | | **18,657** |

### Derivative financial instruments held for trading purposes

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

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual 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 contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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

### 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates. The maturity analyses of the gross nominal value of derivatives are presented below:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| | **Notional Amounts** | **Notional Amounts** |
| **Trading Derivatives** | | |
| **Foreign Currency Related Derivative Transactions** | **28,241,368** | **22,773,909** |
| Currency Forwards | 468,760 | 555,204 |
| Currency Swaps | 27,259,078 | 21,162,157 |
| Currency Futures | - | - |
| Currency Options | 513,530 | 1,056,548 |
| **Interest Rate Derivative Transactions** | **13,313,758** | **7,478,238** |
| Interest Rate Forwards | - | - |
| Interest Rate Swaps | 13,313,758 | 7,478,238 |
| Interest Rate Options | - | - |
| Investment Security Options | - | - |
| Interest Rate Futures | - | - |
| **Other Trading Derivatives** | **8,954,555** | **6,780,167** |
| **Total Derivative Transactions** | **50,509,681** | **37,032,314** |

| | 31 December 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
| Currency swaps: | | | | | | |
| Purchases | 10,038,294 | 3,520,445 | 242,757 | - | - | 13,801,496 |
| Sales | 4,394,944 | 3,535,470 | 251,525 | - | - | 8,181,939 |
| Currency forwards: | | | | | | |
| Purchases | 21,330 | 60,137 | 107,684 | 45,556 | - | 234,707 |
| Sales | 21,304 | 60,054 | 107,359 | 45,336 | - | 234,053 |
| Cross currency interest rate swaps: | | | | | | |
| Purchases | - | - | 186,709 | 2,732,075 | - | 2,918,784 |
| Sales | - | - | 120,583 | 2,236,276 | - | 2,356,859 |
| Interest rate swaps: | | | | | | |
| Purchases | - | - | 218,250 | 2,763,121 | 3,675,508 | 6,656,879 |
| Sales | - | - | 218,250 | 2,763,121 | 3,675,508 | 6,656,879 |
| Currency options: | | | | | | |
| Purchases | 229,308 | 13,086 | 8,586 | - | - | 250,980 |
| Sales | 239,124 | 13,526 | 9,900 | - | - | 262,550 |
| Other: | | | | | | |
| Purchases | - | - | 625,650 | - | 1,247,145 | 1,872,795 |
| Sales | 5,597,158 | - | 611,602 | - | 873,000 | 7,081,760 |
| **Total of purchases** | **10,288,932** | **3,593,668** | **1,389,636** | **5,540,752** | **4,922,653** | **25,735,641** |
| **Total of sales** | **10,252,530** | **3,609,050** | **1,319,219** | **5,044,733** | **4,548,508** | **24,774,040** |
| **Total of derivatives** | **20,541,462** | **7,202,718** | **2,708,855** | **10,585,485** | **9,471,161** | **50,509,681** |

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

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

| | 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
| Currency swaps: | | | | | | |
| Purchases | 8,805,023 | 2,322,843 | 234,800 | 389,279 | - | 11,751,945 |
| Sales | 4,120,339 | 2,317,964 | 237,650 | 383,615 | - | 7,059,568 |
| Currency forwards: | | | | | | |
| Purchases | 99,142 | 68,619 | 71,286 | 38,774 | - | 277,821 |
| Sales | 99,070 | 68,502 | 71,136 | 38,675 | - | 277,383 |
| Cross currency interest rate swaps: | | | | | | |
| Purchases | 63,456 | 58,000 | - | 1,172,493 | - | 1,293,949 |
| Sales | 46,667 | 37,825 | - | 972,203 | - | 1,056,695 |
| Interest rate swaps: | | | | | | |
| Purchases | - | - | - | 1,202,149 | 2,536,970 | 3,739,119 |
| Sales | - | - | - | 1,202,149 | 2,536,970 | 3,739,119 |
| Currency options: | | | | | | |
| Purchases | 242,712 | 90,791 | 194,771 | - | - | 528,274 |
| Sales | 242,710 | 90,790 | 194,774 | - | - | 528,274 |
| Other: | | | | | | |
| Purchases | 158,020 | - | - | - | 994,287 | 1,152,307 |
| Sales | 4,931,860 | - | - | - | 696,000 | 5,627,860 |
| **Total of purchases** | **9,368,353** | **2,540,253** | **500,857** | **2,802,695** | **3,531,257** | **18,743,415** |
| **Total of sales** | **9,440,646** | **2,515,081** | **503,560** | **2,596,642** | **3,232,970** | **18,288,899** |
| **Total of derivatives** | **18,808,999** | **5,055,334** | **1,004,417** | **5,399,337** | **6,764,227** | **37,032,314** |

Set out below accruals of derivative instruments:

| | **Asset** | | **Liability** | |
|---|---|---|---|---|
| | **31 December 2015** | **31 December 2014** | **31 December 2015** | **31 December 2014** |
| Forwards | 2,711 | 4,090 | 2,102 | 3,667 |
| Swaps | 882,413 | 369,739 | 273,399 | 261,265 |
| Options | 343 | 5,747 | 28,851 | 5,695 |
| **Fair value of derivatives** | **885,467** | **379,576** | **304,352** | **270,627** |

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

## 8. REPURCHASE AGREEMENTS

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Fair value of underlying assets | Carrying Value of corresponding assets | Fair value of underlying assets | Carrying Value of corresponding assets |
| Reverse repurchase agreements | 3,389 | 3,389 | 6,338 | 5,859 |

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The counterparties cannot resell or re-pledged the assets. Assets sold under repurchase agreements comprise the following:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Fair value of underlying assets | Carrying value of corresponding liabilities | Fair value of underlying assets | Carrying value of corresponding liabilities |
| Financial assets at fair value through profit or loss | - | - | - | - |
| Investment securities- Available for sale portfolio | 6,269,330 | 5,875,039 | 11,801,059 | 11,665,207 |
| Investment securities- Held to maturity portfolio | 6,050,350 | 5,718,659 | 5,629,267 | 4,520,095 |
| **Total** | **12,319,680** | **11,593,698** | **17,430,326** | **16,185,302** |

Accrued interest on obligations under repurchase agreements amounted to TL 26,788 (31 December 2014: TL 19,686) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

## 9. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 31 December 2015 and 2014:

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | TL | FC | Total | TL | FC | Total |
| Domestic banks | 61,159 | 2,774 | 63,933 | 15,169 | 420,547 | 435,716 |
| Foreign banks | - | 178,659 | 178,659 | - | 129,199 | 129,199 |
| **Total** | **61,159** | **181,433** | **242,592** | **15,169** | **549,746** | **564,915** |

As at 31 December 2015, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL nil (31 December 2014: Nil) held against the insurance liabilities of the Group in favor of the Turkish Treasury.

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

## 10. LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2015 and 31 December 2014, outstanding loans and advances to customers comprise the followings:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Corporate loans | 83,689,630 | 72,120,741 |
| *Neither past due nor impaired* | *81,567,218* | *69,982,937* |
| *Past due but not impaired* | *2,122,412* | *2,137,804* |
| Consumer loans | 32,467,215 | 30,159,998 |
| *Neither past due nor impaired* | *30,211,045* | *28,709,268* |
| *Past due but not impaired* | *2,256,170* | *1,450,730* |
| Credit cards | 5,227,850 | 1,769,875 |
| *Neither past due nor impaired* | *4,852,205* | *1,475,282* |
| *Past due but not impaired* | *375,645* | *294,593* |
| Finance lease receivables, net of unearned income | 1,325,825 | 1,089,987 |
| *Neither past due nor impaired* | *1,319,008* | *1,089,987* |
| *Past due but not impaired* | *6,817* | - |
| Loans to financial institutions | 3,156,965 | 1,339,302 |
| Factoring receivables | 686,432 | 536,720 |
| **Total performing loans** | **126,553,917** | **107,016,623** |
| Non-performing loans | 5,497,537 | 4,377,740 |
| **Total gross loans** | **132,051,454** | **111,394,363** |
| Allowance for incurred loan losses from loans and advances to customers | (6,195,582) | (4,838,962) |
| *Specific impairment* | *(4,347,651)* | *(3,486,879)* |
| *Collective impairment* | *(1,847,931)* | *(1,352,083)* |
| **Loans and advances to customers, net** | **125,855,872** | **106,555,401** |

The specific allowance for incurred losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances.

Movements in the allowance for incurred loan losses are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Reserve at the beginning of the year | 4,838,962 | 3,731,355 |
| *Corporate loans* | *3,684,306* | *2,857,379* |
| *Consumer loans* (*) | *1,154,656* | *873,976* |
| Adjustment for currency translation | 5,094 | 188 |
| Reserve for incurred loan losses provided during the year | 2,076,173 | 1,887,801 |
| Recoveries | (723,113) | (776,193) |
| *Corporate loans* | *(542,761)* | *(556,582)* |
| *Consumer loans* (*) | *(180,352)* | *(219,611)* |
| Provision, net of recoveries | **6,197,116** | **4,843,151** |
| Loans written off during the year | (1,534) | (4,189) |
| **Reserve at the end of the year** | **6,195,582** | **4,838,962** |
| *Corporate loans* | 4,319,299 | *3,684,306* |
| *Consumer loans* (*) | 1,876,283 | *1,154,656* |

(*) Consumer loans include credit cards amount.

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

## 10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

| 31 December 2015 | Less than 30 days | 31-60 days | 61-90 days | Total |
|---|---|---|---|---|
| Loans and receivables | | | | |
| Corporate | 1,155,207 | 514,834 | 459,188 | 2,129,229 |
| Consumer | 1,532,540 | 479,262 | 244,368 | 2,256,170 |
| Credit cards | 273,371 | 67,918 | 34,356 | 375,645 |
| **Total** | **2,961,118** | **1,062,014** | **737,912** | **4,761,044** |

| 31 December 2014 | Less than 30 days | 31-60 days | 61-90 days | Total |
|---|---|---|---|---|
| Loans and receivables | | | | |
| Corporate | 1,125,721 | 334,491 | 677,592 | 2,137,804 |
| Consumer | 988,259 | 322,024 | 140,447 | 1,450,730 |
| Credit cards | 193,962 | 74,008 | 26,623 | 294,593 |
| **Total** | **2,307,942** | **730,523** | **844,662** | **3,883,127** |

## 11. FINANCE LEASE RECEIVABLES

The finance leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following finance lease receivables:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Finance lease receivables, net of unearned finance income | 1,325,825 | 1,089,987 |
| Add: non-performing lease receivables | 164,565 | 133,969 |
| Total finance lease receivables | 1,490,390 | 1,223,956 |
| Less: allowance for incurred losses on lease receivables | (98,172) | (84,970) |
| **Finance lease receivables, net** | **1,392,218** | **1,138,986** |

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Due within one year | 176,626 | 130,634 |
| Due between 1 and 5 years | 1,144,965 | 893,355 |
| More than five years | 280,873 | 298,741 |
| Finance lease receivables, gross | 1,602,464 | 1,322,730 |
| Unearned finance income | (210,246) | (182,360) |
| **Finance lease receivables, net** | **1,392,218** | **1,140,370** |
| Due within one year | 172,516 | 128,309 |
| Due between 1 and 5 years | 992,617 | 773,233 |
| More than five years | 227,085 | 237,444 |
| **Finance lease receivables, net** | **1,392,218** | **1,138,986** |

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

## 12. INVESTMENT SECURITIES

As at 31 December 2015 and 2014, investment securities comprise the following:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Available-for-sale financial assets | 17,452,001 | 16,975,815 |
| Held-to-maturity investment securities | 7,677,729 | 6,854,593 |
| **Total investment securities** | **25,129,730** | **23,830,408** |

*Available-for-sale financial assets:*

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Face Value | Carrying Value | Face Value | Carrying Value |
| *Debt and other instruments available-for-sale:* | | | | |
| Government bonds in TL | 11,438,075 | 12,100,331 | 11,416,221 | 12,629,806 |
| Eurobonds issued by the Turkish Government | 4,143,074 | 4,610,290 | 3,295,235 | 3,778,675 |
| Bonds issued by banks | 110,552 | 113,602 | - | - |
| Government bonds in foreign currencies | 389,704 | 418,701 | 277,997 | 307,001 |
| Treasury bills in TL | - | - | 159,142 | 137,668 |
| Corporate bonds | 14,497 | 13,935 | 20,892 | 17,949 |
| | | **17,256,859** | | **16,871,099** |
| *Equity and other non-fixed income instruments:* | | | | |
| Equity shares | | 195,142 | | 104,716 |
| | | **195,142** | | **104,716** |
| **Total available-for-sale financial assets** | | **17,452,001** | | **16,975,815** |

As at 31 December 2015 and 2014, equity shares comprised the following:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| ***Unquoted investments:*** | | |
| Güney Ege Enerji Ltd. Şti. | 209,738 | 209,738 |
| Vakıf Pazarlama Sanayi ve Ticaret A.Ş. | 103,941 | 103,941 |
| Bayek Tedavi ve Sağlık Hizmetleri A.Ş. | 33,954 | 33,954 |
| Takas ve Saklama Bankası A.Ş. | 30,320 | 30,319 |
| Vakıf Gayrimenkul Değerleme A.Ş. | 21,073 | 23,787 |
| Vakıf İnşaat Restorasyon A.Ş. | 10,838 | 10,838 |
| Roketsan Roket Sanayi ve Ticaret A.Ş. | 7,594 | 7,593 |
| İzmir Enternasyonel A.Ş. | 6,178 | 6,178 |
| Mastercard Incorporated | - | - |
| Visa Inc. | 79,238 | - |
| Others | 13,971 | 5,400 |
| Impairment | (321,703) | (327,032) |
| **Total** | **195,142** | **104,716** |

The following table summarizes available-for-sale financial assets that were deposited as collaterals with respect to various banking transactions:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Face Value | Carrying Value | Face Value | Carrying Value |
| Deposited at financial institutions for repurchase transactions | 6,186,603 | 6,449,213 | 9,672,596 | 10,703,046 |
| Deposited at other institutions for repurchase transactions | 4,990,283 | 5,427,279 | 2,232,420 | 2,491,278 |
| Others | 1,633,771 | 1,750,956 | 929,348 | 964,595 |
| **Total** | | **13,627,448** | | **14,158,919** |

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

## 12. INVESTMENT SECURITIES (Continued)

*Held-to-maturity investment securities:*

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Face Value** | **Carrying Value** | **Fair Value** | **Face Value** | **Carrying Value** | **Fair Value** |
| *Debt instruments:* | | | | | | |
| Government bonds in TL | 6,706,610 | 7,546,748 | 7,365,126 | 6,206,610 | 6,761,749 | 6,890,793 |
| Certificate of deposits | 130,950 | 130,981 | 130,950 | 89,289 | 92,844 | 92,800 |
| Eurobonds issued by the Turkish Government | - | - | - | - | - | - |
| **Total held-to-maturity investment securities** | | **7,677,729** | **7,496,076** | | **6,854,593** | **6,983,593** |

Movements of available for sale and held to maturity investment securities are as follows:

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Available-for-sale** | **Held-to-maturity** | **Total** | **Available-for-sale** | **Held-to-maturity** | **Total** |
| At 1 January | 16,975,815 | 6,854,593 | 23,830,408 | 16,742,096 | 5,413,171 | 22,155,267 |
| Exchange differences | 926,411 | 44,702 | 971,113 | (66,584) | 7,990 | (58,594) |
| Additions | 7,723,001 | 1,610,704 | 9,333,705 | 10,647,992 | 2,924,991 | 13,572,983 |
| Disposals (sale and redemption) | (7,765,404) | (1,129,187) | (8,894,591) | (9,539,306) | (1,773,902) | (11,313,208) |
| Changes in amortized cost and fair value | (407,822) | 296,917 | (110,905) | (808,383) | 282,343 | (526,040) |
| **Total** | **17,452,001** | **7,677,729** | **25,129,730** | **16,975,815** | **6,854,593** | **23,830,408** |

The following table summarizes held-to-maturity investment securities that were deposited as collaterals with respect to various banking transactions:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Face Value** | **Carrying Value** | **Face Value** | **Carrying Value** |
| Deposited at financial and other institutions for repurchase transactions | 1,441,050 | 1,528,488 | 3,396,411 | 3,833,695 |
| Deposited at Central Bank of Turkey for repurchase transactions | 3,832,878 | 4,521,861 | 1,562,294 | 1,795,572 |
| Deposited at Central Bank of Turkey for interbank transactions | 152,385 | 171,969 | 656,385 | 730,578 |
| Deposited at Istanbul Stock Exchange for the transaction of financial instruments | 290,000 | 318,492 | 237,000 | 273,033 |
| Others | 162,605 | 163,431 | 56,500 | 61,235 |
| **Total** | | **6,704,241** | | **6,694,113** |

## 13. INVESTMENT IN EQUITY-ACCOUNTED INVESTEES

As at 31 December 2015 and 2014 investments in equity participations accounted for using the equity method are as follows:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| *Unquoted investments:* | | |
| Kıbrıs Vakıflar Bankası Ltd. | 12,337 | 11,837 |
| T. Sınai Kalkınma Bankası A.Ş. | 250,845 | 217,765 |
| Total | **263,182** | **229,602** |

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

## 14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property and equipment and intangible assets from 1 January to 31 December 2015 and 1 January to 31 December 2014 are as follows:

| **Property and equipment** | **1 January 2015** | **Currency translation difference** | **Valuation difference** | **Additions** | **Disposals** | **31 December 2015** |
|---|---|---|---|---|---|---|
| ***Cost:*** | | | | | | |
| Land and buildings | 957,892 | - | 788,532 | 247,886 | (573,397) | 1,420,913 |
| Motor vehicles | 46,956 | - | - | 1,785 | (11,039) | 37,702 |
| Furniture, office equipment and leasehold improvements | 636,463 | - | - | 178,013 | (35,323) | 779,153 |
| Other tangibles | 453,405 | - | - | 80,138 | (97,904) | 435,639 |
| | **2,094,716** | **-** | **788,532** | **507,822** | **(717,663)** | **2,673,407** |
| ***Accumulated depreciation:*** | | | | | | |
| Land and buildings | 311,938 | - | - | 18,411 | (238,585) | 91,764 |
| Motor vehicles | 35,700 | - | - | 4,575 | (7,265) | 33,010 |
| Furniture, office equipment and leasehold improvements | 502,100 | 40 | - | 52,452 | (20,357) | 534,236 |
| Other tangibles | 258,056 | (2,606) | - | 56,109 | (74,530) | 237,027 |
| | **1,107,794** | **(2,566)** | **-** | **131,547** | **(340,737)** | **896,037** |
| **Net book value** | **986,922** | | | | | **1,777,370** |

| **Intangible assets** | **1 January 2015** | **Currency translation difference** | **Additions** | **Disposals** | **31 December 2015** |
|---|---|---|---|---|---|
| ***Cost:*** | | | | | |
| Software programs | 207,432 | - | 191,044 | (229) | 398,247 |
| Rights | 6,893 | - | 1,323 | - | 8,216 |
| Other intangible assets | 2,070 | - | 5,655 | - | 7,725 |
| | **216,395** | **-** | **198,022** | **(229)** | **414,188** |
| ***Accumulated amortization:*** | | | | | |
| Software programs | 50,312 | - | 28,692 | (29) | 78,975 |
| Rights | 3,651 | - | 1,605 | - | 5,256 |
| Other intangible assets | 92 | - | 1 | - | 93 |
| | **54,055** | **-** | **30,298** | **(29)** | **84,324** |
| **Net book value** | **162,340** | | | | **329,864** |

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

## 14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

| Property and equipment | 1 January 2014 | Currency translation difference | Valuation difference | Additions | Disposals | 31 December 2014 |
|---|---|---|---|---|---|---|
| ***Cost:*** | | | | | | |
| Land and buildings | 918,836 | - | - | 68,934 | (29,878) | 957,892 |
| Motor vehicles | 54,433 | - | - | 2,070 | (9,547) | 46,956 |
| Furniture, office equipment and leasehold improvements | 592,931 | - | - | 83,760 | (40,228) | 636,463 |
| Other tangibles | 457,818 | - | - | 41,716 | (46,129) | 453,405 |
| | **2,024,018** | **-** | **-** | **196,480** | **(125,782)** | **2,094,716** |
| ***Accumulated depreciation:*** | | | | | | |
| Land and buildings | 298,087 | 84 | - | 19,710 | (5,943) | 311,938 |
| Motor vehicles | 37,397 | - | - | 6,072 | (7,769) | 35,700 |
| Furniture, office equipment and leasehold improvements | 450,322 | - | - | 52,521 | (743) | 502,100 |
| Other tangibles | 219,365 | - | - | 43,644 | (4,953) | 258,056 |
| | **1,005,171** | **84** | **-** | **121,947** | **(19,408)** | **1,107,794** |
| **Net book value** | **1,018,847** | | | | | **986,922** |

| Intangible assets | 1 January 2014 | Currency translation difference | Additions | Disposals | 31 December 2014 |
|---|---|---|---|---|---|
| ***Cost:*** | | | | | |
| Software programs | 169,165 | (3) | 48,072 | (839) | 216,395 |
| | **169,165** | **(3)** | **48,072** | **(839)** | **216,395** |
| ***Accumulated amortization:*** | | | | | |
| Software programs | 41,035 | - | 13,184 | (164) | 54,055 |
| | **41,035** | **-** | **13,184** | **(164)** | **54,055** |
| **Net book value** | **128,130** | | | | **162,340** |

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

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

## 15. OTHER ASSETS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Assets held for resale | 1,049,459 | 792,848 |
| Receivables from insurance activities | 995,337 | 833,623 |
| Receivables from credit card payments | 964,563 | 772,007 |
| Prepaid expenses | 603,602 | 627,350 |
| Investment properties | 287,726 | 192,000 |
| Deferred acquisition costs for insurance contracts, gross | 122,171 | 110,321 |
| Exchange operations receivables | 74,956 | 92,774 |
| Receivables from term sales of fixed assets | 44,567 | 68,664 |
| Receivables from reinsurance activities | 23,304 | 54,057 |
| Prepaid taxes other than income tax and funds to be refunded | 11,254 | 10,253 |
| Receivables from private pension system | 5,580 | 4,483 |
| Other | 600,950 | 276,106 |
| **Total non-financial other asset** | **4,783,469** | **3,834,486** |
| Collaterals for derivative financial instruments | 500,881 | 351,579 |
| Guarantees given for repurchase agreements | 143,978 | 193,605 |
| **Total financial other asset** | **644,859** | **545,184** |

As at 31 December 2015, reserve deposits at the CBRT were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBRT.

In accordance with "Announcement on Reserve Deposits" of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 5% to 11.5% (31 December 2014: ranging from 5% to 11.5%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 6% to 20% in US Dollar or Euro (31 December 2014: ranging from 6% to 13%).

As at 31 December 2015, TL 1,049,459 (31 December 2013: TL 792,848) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the years ended 31 December 2015 and 2014, movement of deferred acquisition cost is as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Deferred acquisition cost at the beginning of the year | 110,321 | 86,788 |
| Addition | 236,418 | 187,092 |
| Transfer to profit/loss | (224,568) | (163,559) |
| **Deferred acquisition cost at the end of the year** | **122,171** | **110,321** |

## 16. TRADING LIABILITIES

As at 31 December 2015 and 2014, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Forwards | 2,102 | 3,667 |
| Swaps | 273,399 | 261,265 |
| Options | 28,851 | 5,695 |
| **Total trading liabilities** | **304,352** | **270,627** |

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

## 17. DEPOSITS FROM BANKS

As at 31 December 2015 and 2014, deposits from banks comprise the following:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Demand deposits | 392,993 | 67,036 |
| Time deposits | 6,418,982 | 5,153,319 |
| **Total deposits from banks** | **6,811,975** | **5,220,355** |

## 18. DEPOSITS FROM CUSTOMERS

As at 31 December 2015 and 2014, deposits from customers comprise the following:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Demand Deposit | Time Deposit | Demand Deposit | Time Deposit |
| Saving deposits | 4,424,092 | 23,920,505 | 3,715,353 | 20,354,788 |
| Foreign currency deposits | 4,478,957 | 27,274,506 | 3,471,885 | 20,611,525 |
| *Residents in Turkey* | 3,846,972 | 21,719,298 | 3,055,738 | 15,800,487 |
| *Residents abroad* | 631,985 | 5,555,208 | 416,147 | 4,811,038 |
| Commercial deposits | 2,457,484 | 14,890,631 | 2,154,089 | 14,717,319 |
| Public sector deposits | 4,504,470 | 14,755,810 | 3,583,281 | 11,481,650 |
| Others | 4,376,869 | 5,252,128 | 4,062,540 | 4,359,347 |
| **Total deposits from customers** | **20,241,872** | **86,093,580** | **16,987,148** | **71,524,629** |

## 19. FUNDS BORROWED

As at 31 December 2015 and 2014, funds borrowed comprise the followings in accordance with their original maturities:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | TL | Foreign currency | TL | Foreign Currency |
| *Short-term funds* | 510,306 | 2,020,325 | 1,235,673 | 7,404,200 |
| *Short-term portion of long term funds* | 114,523 | 9,001,196 | 171,829 | 463,245 |
| Total short-term funds | 624,829 | 11,021,521 | 1,407,502 | 7,867,445 |
| Medium/long term funds | 311,497 | 8,237,200 | 80,252 | 6,905,451 |
| **Total funds borrowed** | **936,326** | **19,258,721** | **1,487,754** | **14,772,896** |

On 16 April 2014, the Parent has obtained syndicated loan at the amount of US Dollar 270.5 million and Euro 525 million with the interest rate of US Libor +0.90% and Euribor +0.90% at a maturity of one year, with participation of 35 banks with the coordination of Wells Fargo Bank N.A., London Branch and Sumitomo Mitsui Banking Corporation, Brussels Branch acting as agent. On 17 April 2015, the loan has been renewed with a new syndicated loan amounting to US Dollar 204 million and Euro 763 million with the interest rate of US Libor +0.8% and Euribor +0.8% at a maturity of 367 days with participation of 35 banks, Wells Fargo Bank, N.A., London Branch acting as coordinator and agent bank.

On 22 September 2014, the Parent has obtained syndicated loan amounting to US Dollar 168.5 million and Euro 528.75 million with interest rates of US Libor + 0.90% and Euribor + 0.90% at a maturity of one year, with the participation of 26 banks, ING Bank, London Branch acting as coordinator and agent bank. On 14 September 2015, the loan has been renewed with a new syndicated loan amounting to US Dollar 168.5 million and Euro 679.5 million with the interest rate of US Libor +0.75% and Euribor +0.75% at a maturity of one year with participation of 30 banks, ING Bank, London Branch acting as coordinator and agent bank.

## 19. FUNDS BORROWED (Continued)

On 19 December 2014, the Parent has obtained securitization loan amounting to US Dollar 928.6 million related to foreign transfers and treasury transactions in Euro and US Dollar. Loan amounting to US Dollar 500 million has been obtained related to foreign transfers at a maturity of five years and loan amounting to US Dollar 428.6 million has been obtained related to treasury transactions at a maturity of seven years in seven different segments in total.

The loan obtained from European Bank for Reconstruction and Development Bank (EBRD) amounting to US Dollar 125 million in 2014-A segment in order to finance medium term loans including to meet the needs of agricultural enterprises and support woman entrepreneurs.

2014-B segment of the loan has been obtained from Wells Fargo Bank, N.A., 2014-C segment of the loan has been obtained from Raiffeisen Bank International AG, 2014-D segment of the loan has been obtained from Standard Chartered Bank, 2014-E segment of the loan has been obtained from Societe Generale, 2014-G segment of the loan has been obtained from Bank of America, N.A. and 2014-F segment of the loan related to treasury transactions has been obtained from JP Morgan Securities plc. in the scope of program. As at 31 December 2015, total securitization loan amounts to US Dollar 936 million and Euro 260 million.

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

## 20. DEBT SECURITIES ISSUED

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Nominal | 3,332,669 | 7,334,807 | 2,930,927 | 7,472,592 |
| Cost | 3,198,134 | 7,288,382 | 2,813,866 | 7,436,932 |
| Net Book Value | 3,257,620 | 7,389,088 | 2,866,343 | 7,518,365 |

**Current Period**

| ISIN Code | Security Type | Coupon Rate | Currency Type | Issue Date | Maturity Date | Days to Maturity | Nominal | Cost | Net Book Value |
|---|---|---|---|---|---|---|---|---|---|
| TRQVKFB41637 | Discounted | - | TL | 12/11/2015 | 4/1/2016 | 112 | 752,975 | 728,584 | 733,092 |
| TRQVKFB71618 | Discounted | - | TL | 12/11/2015 | 7/22/2016 | 224 | 7,984 | 7,467 | 7,513 |
| TRQVKFB11614 | Discounted | - | TL | 8/7/2015 | 1/29/2016 | 175 | 241,375 | 229,985 | 239,488 |
| TRQVKFB11622 | Discounted | - | TL | 10/9/2015 | 1/29/2016 | 112 | 484,415 | 468,809 | 480,412 |
| TRQVKFB21613 | Discounted | - | TL | 9/4/2015 | 2/26/2016 | 175 | 240,936 | 228,854 | 236,949 |
| TRQVKFB21621 | Discounted | - | TL | 11/6/2015 | 2/26/2016 | 112 | 458,678 | 444,367 | 451,409 |
| TRQVKFB41611 | Discounted | - | TL | 10/9/2015 | 4/1/2016 | 175 | 527,454 | 500,239 | 513,097 |
| TRQVKFB41629 | Discounted | - | TL | 11/6/2015 | 4/29/2016 | 175 | 319,163 | 303,631 | 308,495 |
| TRQVKFB51610 | Discounted | - | TL | 12/11/2015 | 5/27/2016 | 168 | 164,602 | 156,614 | 157,589 |
| TRFVFAS51618 | Discounted | - | TL | 11/23/2015 | 5/18/2016 | 177 | 135,087 | 129,584 | 129,576 |
| US90015NAA19 | Fixed | 5.75 | USD | 4/24/2012 | 4/24/2017 | 1,826 | 1,441,905 | 1,425,586 | 1,452,645 |
| XS0916347759 | Fixed | 3.75 | USD | 4/15/2013 | 4/15/2018 | 1,826 | 1,744,981 | 1,735,103 | 1,754,479 |
| XS0987355939 | Fixed | 5 | EUR | 10/31/2013 | 10/31/2018 | 1,826 | 1,455,000 | 1,445,543 | 1,461,629 |
| XS1063444001 | Floating | 3 ME+2,15% | EUR | 5/6/2014 | 5/6/2016 | 731 | 33,244 | 33,078 | 33,345 |
| XS1077629225 | Fixed | 3.50 | USD | 6/17/2014 | 6/17/2019 | 1,826 | 1,567,220 | 1,556,616 | 1,589,639 |
| XS1170287558 | Fixed | 1.77 | USD | 1/20/2015 | 1/21/2016 | 366 | 72,750 | 72,750 | 73,974 |
| XS1197016865 | Fixed | 1.75 | USD | 3/2/2015 | 3/3/2016 | 367 | 11,640 | 11,640 | 11,810 |
| XS1203859688 | Fixed | 1.15 | USD | 3/17/2015 | 3/24/2016 | 373 | 49,391 | 49,391 | 49,842 |
| XS1246885310 | Fixed | 0.93 | USD | 6/29/2015 | 6/30/2016 | 367 | 12,109 | 12,109 | 12,110 |
| XS1253945155 | Fixed | 1.45 | USD | 6/29/2015 | 1/8/2016 | 193 | 55,872 | 55,872 | 56,286 |
| XS1257157708 | Fixed | 1.45 | USD | 7/6/2015 | 1/15/2016 | 193 | 66,348 | 66,348 | 66,821 |
| XS1258500815 | Fixed | 1.45 | USD | 7/8/2015 | 1/14/2016 | 190 | 20,952 | 20,952 | 21,100 |
| XS1263902204 | Fixed | 1.45 | USD | 7/22/2015 | 1/27/2016 | 189 | 18,915 | 18,914 | 19,038 |
| XS1266142410 | Fixed | 1.45 | EUR | 7/24/2015 | 1/19/2016 | 179 | 46,560 | 46,560 | 46,859 |
| XS1266796298 | Fixed | 1.45 | USD | 7/29/2015 | 1/22/2016 | 177 | 29,100 | 29,100 | 29,281 |
| XS1270742593 | Fixed | 1.45 | EUR | 8/3/2015 | 1/29/2016 | 179 | 34,920 | 34,920 | 35,130 |
| XS1277635857 | Fixed | 1.45 | USD | 8/18/2015 | 2/19/2016 | 185 | 49,470 | 49,470 | 49,738 |
| XS1280231272 | Fixed | 1.45 | EUR | 8/24/2015 | 2/26/2016 | 186 | 38,412 | 38,412 | 38,611 |
| XS1283666367 | Fixed | 1.45 | USD | 9/1/2015 | 3/2/2016 | 183 | 68,676 | 68,676 | 69,010 |
| XS1298051613 | Fixed | 0.70 | USD | 9/29/2015 | 1/7/2016 | 100 | 28,495 | 28,495 | 28,546 |
| XS1301527831 | Fixed | 0.70 | EUR | 10/6/2015 | 1/14/2016 | 100 | 43,059 | 43,059 | 43,131 |
| XS1308446340 | Fixed | 0.79 | EUR | 10/19/2015 | 1/28/2016 | 101 | 39,260 | 39,260 | 39,322 |
| XS1311094236 | Fixed | 0.39 | EUR | 10/26/2015 | 2/4/2016 | 101 | 46,858 | 46,858 | 46,892 |
| XS1315101524 | Fixed | 0.36 | EUR | 11/3/2015 | 2/4/2016 | 93 | 39,893 | 39,893 | 39,916 |
| XS1321468610 | Fixed | 0.75 | EUR | 11/13/2015 | 2/18/2016 | 97 | 75,353 | 75,353 | 75,430 |
| XS1324061974 | Fixed | 0.22 | EUR | 11/20/2015 | 2/25/2016 | 97 | 50,658 | 50,658 | 50,670 |
| XS1327053994 | Fixed | 0.43 | EUR | 11/27/2015 | 3/3/2016 | 97 | 65,855 | 65,855 | 65,882 |
| XS1327434871 | Fixed | 0.51 | USD | 11/30/2015 | 5/31/2016 | 183 | 79,153 | 79,153 | 79,188 |
| XS1336211484 | Fixed | 0.32 | USD | 12/18/2015 | 3/23/2016 | 96 | 48,758 | 48,758 | 48,764 |
| **Total** | | | | | | | **10,667,476** | **10,486,516** | **10,646,708** |

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

## 20. DEBT SECURITIES ISSUED (Continued)

**Prior Period**

| ISIN Code | Security Type | Coupon Rate | Currency Type | Issue Date | Maturity Date | Days to Maturity | Nominal | Cost | Net Book Value |
|---|---|---|---|---|---|---|---|---|---|
| TRQVKFB31521 | Discounted | - | TL | 11/21/2014 | 3/13/2015 | 112 | 367,289 | 357,774 | 361,284 |
| TRQVKFB31539 | Discounted | - | TL | 12/12/2014 | 3/13/2015 | 91 | 196,129 | 192,033 | 192,925 |
| TRQVKFB81526 | Discounted | - | TL | 10/24/2014 | 8/7/2015 | 287 | 88,644 | 82,430 | 83,878 |
| TRQVKFB81534 | Discounted | - | TL | 11/21/2014 | 8/7/2015 | 259 | 27,404 | 25,798 | 26,044 |
| TRQVKFB51529 | Discounted | - | TL | 11/21/2014 | 5/15/2015 | 175 | 240,965 | 231,321 | 233,540 |
| TRQVKFB81542 | Discounted | - | TL | 12/12/2014 | 8/7/2015 | 238 | 14,561 | 13,782 | 13,846 |
| TRQVKFB41520 | Discounted | - | TL | 10/24/2014 | 4/17/2015 | 175 | 736,745 | 705,583 | 717,613 |
| TRQVKFB51537 | Discounted | - | TL | 12/12/2014 | 5/15/2015 | 154 | 165,233 | 159,456 | 160,193 |
| TRQVKFB41512 | Discounted | - | TL | 5/2/2014 | 4/17/2015 | 350 | 12,028 | 11,042 | 11,700 |
| TRQVKFB51511 | Discounted | - | TL | 6/6/2014 | 5/29/2015 | 357 | 36,117 | 33,210 | 34,837 |
| TRQVKFB21514 | Discounted | - | TL | 8/22/2014 | 2/13/2015 | 175 | 664,715 | 638,505 | 657,735 |
| TRQVKFB81518 | Discounted | - | TL | 8/22/2014 | 8/7/2015 | 350 | 43,546 | 39,822 | 41,166 |
| TRQVKFB31513 | Discounted | - | TL | 9/19/2014 | 3/13/2015 | 175 | 337,551 | 323,110 | 331,582 |
| US90015NAA19 | Fixed | 5.75 | USD | 4/24/2012 | 4/24/2017 | 1826 | 1,147,300 | 1,136,528 | 1,155,710 |
| XS0916347759 | Fixed | 3.75 | USD | 4/15/2013 | 4/15/2018 | 1826 | 1,391,012 | 1,383,310 | 1,397,180 |
| XS0987355939 | Fixed | 5 | USD | 10/31/2013 | 10/31/2018 | 1826 | 1,160,000 | 1,152,460 | 1,164,098 |
| XS1069999610 | Fixed | 1.75 | USD | 5/21/2014 | 5/20/2015 | 364 | 11,600 | 11,600 | 11,725 |
| XS1084474862 | Fixed | 0.73 | USD | 7/3/2014 | 1/7/2015 | 188 | 18,328 | 18,328 | 18,394 |
| XS1085714621 | Fixed | 1.43 | USD | 7/9/2014 | 1/7/2015 | 182 | 92,800 | 92,800 | 93,443 |
| XS1087783269 | Fixed | 1.45 | USD | 7/14/2014 | 1/8/2015 | 178 | 42,688 | 42,688 | 42,979 |
| XS1087831506 | Fixed | 1.45 | USD | 7/15/2014 | 1/15/2015 | 184 | 97,440 | 97,440 | 98,100 |
| XS1089992686 | Fixed | 1.4 | USD | 7/22/2014 | 1/15/2015 | 177 | 48,720 | 48,720 | 49,025 |
| XS1090076768 | Fixed | 1.4 | USD | 7/22/2014 | 1/22/2015 | 184 | 58,000 | 58,000 | 58,364 |
| XS1091762812 | Fixed | 1.4 | USD | 7/25/2014 | 1/22/2015 | 181 | 48,256 | 48,256 | 48,553 |
| XS1091766482 | Fixed | 1.4 | USD | 8/1/2014 | 1/26/2015 | 178 | 71,920 | 71,920 | 72,343 |
| XS1096098030 | Fixed | 1.4 | USD | 8/8/2014 | 2/5/2015 | 181 | 76,328 | 76,324 | 76,756 |
| XS1096471526 | Fixed | 1.4 | USD | 8/8/2014 | 1/29/2015 | 174 | 35,264 | 35,264 | 35,462 |
| XS1097465766 | Fixed | 1.4 | USD | 8/13/2014 | 2/18/2015 | 189 | 27,840 | 27,840 | 27,991 |
| XS1101735634 | Fixed | 1.4 | USD | 8/20/2014 | 2/19/2015 | 183 | 40,600 | 40,600 | 40,809 |
| XS1101839170 | Fixed | 1.4 | USD | 8/21/2014 | 2/17/2015 | 180 | 69,600 | 69,600 | 69,956 |
| XS1105745761 | Fixed | 0.7 | USD | 9/2/2014 | 3/5/2015 | 184 | 64,960 | 64,960 | 65,111 |
| XS1107482306 | Fixed | 1.38 | USD | 9/9/2014 | 3/12/2015 | 184 | 84,680 | 84,671 | 85,043 |
| XS1110657050 | Fixed | 1.4 | USD | 9/16/2014 | 3/19/2015 | 184 | 116,000 | 116,000 | 116,477 |
| XS1112873176 | Fixed | 1.4 | USD | 9/23/2014 | 3/26/2015 | 184 | 85,840 | 85,840 | 86,170 |
| XS1113320888 | Fixed | 1.74 | USD | 9/24/2014 | 9/23/2015 | 364 | 14,384 | 14,382 | 14,450 |
| XS1115283571 | Fixed | 1.73 | USD | 9/30/2014 | 10/7/2015 | 372 | 9,280 | 9,278 | 9,319 |
| XS1115485010 | Fixed | 1.4 | USD | 9/29/2014 | 3/27/2015 | 179 | 34,800 | 34,800 | 34,926 |
| XS1117991213 | Fixed | 1.1 | USD | 10/8/2014 | 1/8/2015 | 92 | 73,776 | 73,776 | 73,966 |
| XS1118030300 | Fixed | 1.8 | USD | 10/9/2014 | 10/8/2015 | 364 | 27,840 | 27,840 | 27,955 |
| XS1118051215 | Fixed | 1.35 | USD | 10/8/2014 | 4/2/2015 | 176 | 73,312 | 73,312 | 73,543 |
| XS1118053005 | Fixed | 1.35 | USD | 10/8/2014 | 4/17/2015 | 191 | 11,600 | 11,600 | 11,637 |
| XS1121229741 | Fixed | 1.78 | USD | 10/15/2014 | 10/26/2015 | 376 | 9,280 | 9,278 | 9,314 |
| XS1121307059 | Fixed | 1.1 | USD | 10/15/2014 | 1/15/2015 | 92 | 73,312 | 73,312 | 73,485 |
| XS1121307307 | Fixed | 1.35 | USD | 10/15/2014 | 4/16/2015 | 183 | 55,680 | 55,680 | 55,841 |
| XS1123043983 | Fixed | 1.02 | USD | 10/20/2014 | 1/20/2015 | 92 | 23,200 | 23,195 | 23,246 |
| XS1124128320 | Fixed | 1.35 | USD | 10/17/2014 | 4/16/2015 | 181 | 62,640 | 62,640 | 62,817 |
| XS1124141349 | Fixed | 1.1 | USD | 10/17/2014 | 1/22/2015 | 97 | 30,160 | 30,160 | 30,229 |
| XS1124325074 | Fixed | 1.35 | USD | 10/20/2014 | 4/20/2015 | 182 | 58,000 | 58,000 | 58,157 |
| XS1126276697 | Fixed | 1.8 | USD | 10/23/2014 | 10/23/2015 | 365 | 116,000 | 116,000 | 116,402 |
| XS1129857782 | Fixed | 1.35 | USD | 10/24/2014 | 4/28/2015 | 186 | 56,144 | 56,144 | 56,288 |
| XS1130031039 | Fixed | 1.33 | USD | 10/28/2014 | 4/27/2015 | 181 | 81,200 | 81,192 | 81,388 |
| XS1130490227 | Fixed | 1.79 | USD | 10/30/2014 | 11/4/2015 | 370 | 10,440 | 10,438 | 10,471 |
| XS1132341485 | Fixed | 1.25 | USD | 11/3/2014 | 4/30/2015 | 178 | 30,160 | 30,160 | 30,221 |
| XS1132341568 | Fixed | 1.8 | USD | 11/4/2014 | 11/5/2015 | 366 | 12,064 | 12,064 | 12,099 |
| XS1132440386 | Fixed | 1.27 | USD | 11/5/2014 | 5/7/2015 | 183 | 32,480 | 32,480 | 32,545 |
| XS1135135272 | Fixed | 1.8 | USD | 11/5/2014 | 11/5/2015 | 365 | 116,000 | 116,000 | 116,326 |
| XS1138701500 | Fixed | 1.3 | USD | 11/18/2014 | 5/27/2015 | 190 | 18,560 | 18,558 | 18,588 |
| XS1139114257 | Fixed | 1.24 | USD | 11/18/2014 | 5/18/2015 | 181 | 92,800 | 92,791 | 92,932 |
| XS1143013297 | Fixed | 1.28 | USD | 11/24/2014 | 5/28/2015 | 185 | 52,432 | 52,432 | 52,502 |
| XS1143372008 | Fixed | 1.25 | USD | 11/25/2014 | 5/27/2015 | 183 | 81,200 | 81,196 | 81,300 |
| XS1063444001 | Floating | 3 ME+2.15% | EUR | 5/6/2014 | 5/6/2016 | 731 | 29,634 | 29,486 | 29,650 |
| XS1077629225 | Fixed | 3.5 | EUR | 6/17/2014 | 6/17/2019 | 1826 | 1,397,038 | 1,387,589 | 1,415,079 |
| **Total** | | | | | | | **10,403,519** | **10,250,798** | **10,384,708** |

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

## 21. SUBORDINATED LIABILITIES

The Bank has issued bond having the secondary subordinated debt quality to be sold non-resident natural and legal persons. The bond has been issued at the nominal value of USD 500 million, with maturity of 10 years and 6.0% coupon rate. In addition to the issuance of the bond having the secondary subordinated debt realized on 1 November 2012, the Bank, has realized second trance in issuance of the bond having the secondary subordinated debt quality to be sold in foreign bond markets. The bond has been issued at nominal value of USD 400 million, has the same maturity with previous bond and 5.5% coupon rate.

The Bank has issued secondary subordinated loan (Tier II bond) as at January 2015 which contains Basel-III criteria. In this context, the bond has been issued at the nominal value of US Dollar 500 million with the maturity date of 3 February 2025 and early call option date of 3 February 2020. The bond has fixed interest, 10 years and one day maturity, two times interest payment in a year with coupon rate of 6.875% and issue yield of 6.95%.

The Bank has obtained written permission of the BRSA for accounting these bonds as secondary subordinated debt and accordingly considering in the calculation of supplementary capital in compliance with the “Regulation on Capitals of the Banks” published on “ November 2006 dated and 26333 numbered Official Gazette.

As at 31 December 2015, carrying value of subordinated liabilities amount to TL 4,155,551 (31 December 2014: TL 2,126,436).

## 22. OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities and accrued expenses are as follows:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Accounts against expenditures of credit card holders | 3,197,542 | 2,724,688 |
| Import letter of credit | 1,340,949 | 860,242 |
| Reserve for outstanding claims for insurance contracts | 1,108,017 | 704,438 |
| Reserve for unearned insurance premiums | 715,692 | 659,248 |
| Margin deposit for derivative financial instruments | 585,792 | 183,613 |
| Provision for employee termination benefits | 372,537 | 347,710 |
| Clearing account | 333,251 | 257,201 |
| Miscellaneous payables | 326,879 | 160,091 |
| Unearned income | 309,380 | 268,063 |
| Taxes payable other than income tax | 282,988 | 222,948 |
| Reserve for short term employee benefits | 244,536 | 202,543 |
| Payables due to insurance activities | 181,543 | 163,728 |
| Mathematical provisions | 153,279 | 160,496 |
| Investment contract liabilities | 112,481 | 123,937 |
| Blocked accounts | 90,476 | 86,287 |
| Provision for unused vacations | 89,639 | 81,264 |
| Deferred commission income for insurance contracts | 54,545 | 54,462 |
| Cheques response | 47,020 | 37,207 |
| Provision for non-cash loans | 40,930 | 63,030 |
| Other provisions | 36,744 | 32,934 |
| Payment orders | 19,632 | 28,179 |
| Payables to suppliers relating to finance lease activities | 5 | 26,005 |
| Other liabilities | 431,874 | 86,981 |
| **Total other liabilities and provisions** | **10,075,731** | **7,535,295** |

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

## 22. OTHER LIABILITIES AND PROVISIONS (Continued)

Insurance contract liabilities are detailed in the tables below:

| **Reserve for unearned insurance premiums** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Reserve for unearned insurance premiums, net | 413,610 | 357,700 |
| Reserve for unearned insurance premiums, reinsurer share | 302,082 | 301,548 |
| **Reserve for unearned insurance premiums, gross** | **715,692** | **659,248** |

| **Reserve for unearned insurance premiums (net)** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| At the beginning of the year | 357,700 | 335,079 |
| Premiums written during the year *(Note 28)* | 823,958 | 816,373 |
| Premiums earned during the year *(Note 28)* | (768,048) | (793,752) |
| **At the end of the year** | **413,610** | **357,700** |

| **Provision for outstanding claims** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Provision for outstanding claims, net | 576,839 | 394,506 |
| Provision for outstanding claims, reinsurer share | 531,178 | 309,932 |
| **Provision for outstanding claims, gross** | **1,108,017** | **704,438** |

| **Provision for outstanding claims (net)** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| At the beginning of the year | 394,506 | 320,174 |
| Cash paid for claims settled during the year | (124,684) | (528,299) |
| Increase during the year | 307,017 | 602,631 |
| **At the end of the year** | **576,839** | **394,506** |

| **Long term insurance contracts** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| At the beginning of the year | 284,433 | 319,738 |
| Entrance during the year | 35,790 | 38,876 |
| Withdrawals during the year | (54,463) | (74,181) |
| Change in fair value of investments held for investment contracts | - | - |
| **At the end of the year** | **265,760** | **284,433** |
| *Long term insurance contracts* | *153,279* | *160,496* |
| *Investment contract liabilities* | *112,481* | *123,937* |

Movement in the reserve for employee severance indemnity is as follows:

| **Reserve for employee severance indemnity** | **31 December 2015** | **31 December 2014** |
|---|---|---|
| At the beginning of the year | 347,710 | 292,365 |
| Currency translation difference | 48 | (75) |
| Interest cost | 27,651 | 25,434 |
| Service cost | 34,270 | 25,983 |
| Payment during the year | (35,585) | (40,612) |
| Actuarial re-measurement | (1,557) | 44,615 |
| **At the end of the year** | **372,537** | **347,710** |

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

## 23. TAXATION

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| ***Income tax recognized in profit or loss for the year*** | | |
| Current income tax related to income from operations | (404,015) | (470,195) |
| Deferred income tax related to income from operations | 53,243 | 107,078 |
| | **(350,772)** | **(363,117)** |
| ***Income tax recognized in other comprehensive income*** | | |
| Current income tax recognized in other comprehensive income | (14,495) | (125,829) |
| Deferred income tax recognized in other comprehensive income | 85,751 | (27,389) |
| | **71,256** | **(153,218)** |
| **Income tax expense recognized in the consolidated profit or loss and other comprehensive income** | **(279,516)** | **(516,335)** |

The movement of corporate tax liability is as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| At the beginning of the year | 249,940 | 61,399 |
| Current income tax charge | 404,015 | 465,322 |
| Current income tax recognized under equity | 14,495 | 109,600 |
| Taxes paid during the year | (435,446) | (386,381) |
| **Corporate tax liability** | **233,004** | **249,940** |

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended 31 December 2015 and 2014 is as follows:

| | 31 December 2015 | Tax rate (%) | 31 December 2014 | Tax rate (%) |
|---|---|---|---|---|
| **Profit from ordinary activities before income tax and non-controlling interest** | **1,833,678** | | **2,038,808** | |
| Taxes on income per statutory tax rate | (367,754) | (20.06) | (396,100) | (19.43) |
| Income not subject to tax | 7,799 | 0.43 | 27,884 | 1.37 |
| Investment incentives | - | - | 1,350 | 0.07 |
| Disallowable expenses | 4,389 | 0.24 | (5,937) | (0.29) |
| Others, net | 4,794 | 0.26 | 9,686 | 0.48 |
| **Income tax expense** | **(350,772)** | **(19.13)** | **(363,117)** | **(17.81)** |

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

### 23. TAXATION (Continued)

Deferred tax assets and liabilities at 31 December 2015 and 2014 are attributable to the items below:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Other provisions | 438,882 | 203,611 |
| Valuation differences of financial assets and liabilities | 117,244 | 135,402 |
| Provision for employee severance indemnity and unused vacations | 92,435 | 83,204 |
| Valuation difference of associates and subsidiaries | 27,427 | - |
| Tax losses carried forward | 21,609 | 21,127 |
| Investment incentive | 9,697 | 17,213 |
| Valuation difference for property and equipment | 7,366 | 10,542 |
| Other temporary differences | 5,206 | 15,620 |
| **Deferred tax assets** | **719,866** | **486,719** |
| Net-off of the deferred tax assets and liabilities from the same entity | (246,067) | (157,047) |
| **Deferred tax assets, (net)** | **473,799** | **329,672** |
| Valuation difference of associates and subsidiaries | 127,392 | - |
| Valuation differences of financial assets and liabilities | 66,149 | 172,255 |
| Valuation difference for property and equipment | 52,212 | - |
| Other temporary differences | 19,888 | - |
| **Deferred tax liability** | **265,641** | **172,255** |
| Net-off of the deferred tax assets and liabilities from the same entity | (246,067) | (157,047) |
| **Deferred tax liability, (net)** | **19,574** | **15,208** |

### 24. EARNINGS PER SHARE

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

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

The following reflects the basic earnings per share computations:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Net profit attributable for the year | 1,482,906 | 1,675,691 |
| Number of 100 ordinary shares for basic earnings per shares | 2,500,000,000 | 2,500,000,000 |
| Basic earnings per 100 share | 0.5932 | 0.6703 |
| Diluted earnings per 100 share | 0.5932 | 0.6703 |

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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

## 25. EQUITY

### Share capital

As at 31 December 2015, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2014: TL 2,500,000). The Bank's paid-in capital is divided into 250,000,000,000 shares, each with a nominal value of 1 Kuruş. As at 31 December 2015, share capital presented in equity amounts to TL 3,300,146 (31 December 2014: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 31 December 2015 (31 December 2014: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005. Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

Board of Directors' members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member**.**

### Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

In the current period, subsequent to the approval of the decision of the capital of Kredi Garanti Fonu A.Ş. in the Ordinary Meeting of General Assembly of the Company dated 31 March 2015, an associate of the Bank, has been increased from TL 240,000 to TL 278,439, TL 29,000 is paid from company's own resources and TL 9,439 is paid cash by two new shareholders and registered to commercial register on 10 April 2015. After the capital increase, Bank's current nominal share has been increased from TL 4,211 to TL 4,719 by a bonus increase of TL 509 and Bank's share percentage will be decreased from 1.75% to 1.69% after the involvement of two shareholders as at 10 April 2015.In the prior period, subsequent to the approval of the decision of İstanbul Takas ve Saklama Bankası A.Ş., an associate of the Bank in the Ordinary Meeting of General Assembly of the Company dated 28 March 2014, the capital has been increased from TL 420,000 to TL 600,000 TL 120,000 has been paid from bonus shares and TL 60,000 has been paid in cash amounting to TL 180,000 in total. The stock right in cash capital commitment has been removed related to the capital increase and the usage of Istanbul Stock Exchange, Banks' share percentage has been decreased from 4.86% to 4.37%.

### Non-controlling interest

As at 31 December 2015 and 2014, non-controlling interest is analyzed as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Capital and other reserves | 758,385 | 660,830 |
| Legal reserves | 24,739 | 23,248 |
| Retained earnings | (72,972) | (76,005) |
| Profit for the year | (73,682) | 11,387 |
| **Total non-controlling interest** | **636,470** | **619,460** |

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

## 25. EQUITY (Continued)

Set out below is non-controlling profit and dividend payment for the year by subsidiaries:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Profit or loss attributable to non-controlling interest** | **Dividends paid to non-controlling interest during the year** | **Profit or loss attributable to non-controlling interest** | **Dividends paid to non-controlling interest during the year** |
| Taksim Otelcilik A.Ş. | 2,589 | - | 3,143 | - |
| Vakıf Emeklilik A.Ş. | 9,094 | (5,344) | 4,755 | 6,288 |
| Güneş Sigorta A.Ş. | (114,158) | - | (12,848) | - |
| Vakıf Faktoring A.Ş. | 1,828 | - | 1,531 | - |
| Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. | 18,631 | (1,435) | 12,874 | 99 |
| Vakıfbank International AG | 466 | - | 3,383 | - |
| Vakıf Finansal Kiralama A.Ş. | 8,429 | - | (1,360) | |
| Vakıf Enerji ve Madencilik A.Ş. | (341) | - | (107) | |
| Other | (220) | - | 16 | 16 |
| **Total** | **(73,682)** | **(6,779)** | **11,387** | **6,403** |

Fair value reserves of available-for-sale financial assets*:*

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Balance at the beginning of the year | 506,220 | (168,236) |
| Net gains/(losses) from changes in fair values | (643,189) | 668,303 |
| Related deferred and current income taxes | 116,347 | (161,957) |
| Net gains transferred to profit or loss on disposal | 36,105 | 210,138 |
| Related deferred and current income taxes | - | (42,028) |
| **Balance at the end of the year** | **15,483** | **506,220** |

Summarised financial information on subsidiaries

Summarised financial information for each subsidiary that has non-controlling interests that are material to the group as follows:

| | Güneş Sigorta A.Ş. | | Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. | | Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. | |
|---|---|---|---|---|---|---|
| | **31 December 2015** | **31 December 2014** | **31 December 2015** | **31 December 2014** | **31 December 2015** | **31 December 2014** |
| **Non-controlling interest ratio (%)** | **63.65** | **63.65** | **59.36** | **59.36** | **67.09** | **67.09** |
| Total Asset | 1,536,797 | 1,360,678 | 620,465 | 553,866 | 18,040 | 19,566 |
| Current Asset | *1,006,201* | *845,057* | *324,471* | *319,101* | *18,016* | *19,517* |
| Non-current Asset | *530,596* | *515,621* | *295,994* | *234,765* | *24* | *49* |
| Total Liabilities | 1,230,695 | 974,174 | 34,351 | 1,566 | 358 | 1567 |
| Total Equity | 306,102 | 386,504 | 586,114 | 552,300 | 17,682 | 17,999 |
| Interest Income | 36,609 | 24,219 | 31,076 | 23,776 | 403 | 370 |
| Income on securities portfolio | 17,139 | 9,524 | 1,294 | 422 | 12,123 | 534 |
| Profit/(loss) | (162,569) | 13,440 | 33,805 | 21,855 | (281) | 18 |

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

## 26. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, shareholders (namely General Directorate of the Registered Foundations and Appendant Foundations represented by the General Directorate of the Foundations), subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| **Related party** | **Cash loans** | **Non-cash loans** | **Deposits** | **Cash loans** | **Non-cash loans** | **Deposits** |
| Direct/Indirect shareholders | 6 | 30,492 | 771,614 | 1,842 | 20,407 | 777,703 |
| Associates | - | - | 79,449 | 10 | 266 | 16,405 |
| Key management personnel | - | - | 1,396 | - | - | 309 |
| **Total** | **6** | **30,492** | **852,459** | **1,852** | **20,673** | **794,417** |

| | 31 December 2015 | | | | 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| **Related party** | **Commission Income** | **Interest income** | **Interest expense** | **Other operating expense** | **Commission Income** | **Interest income** | **Interest expense** | **Other operating expense** |
| Direct/Indirect shareholders | 31 | - | 51,560 | 4,048 | 45 | - | 61,048 | 16 |
| Associates | - | 2,128 | 2 | - | 17 | - | 4,472 | 9 |
| **Total** | **31** | **2,128** | **51,562** | **4,048** | **62** | **-** | **65,520** | **25** |

### Key Management Remuneration

For the period ended 31 December 2015, the key management personnel received remuneration and fees amounted to TL 24,869 (31 December 2014: TL 23,980).

## 27. FEE AND COMMISSION INCOME

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Fee and commission income** | | |
| Debit and credit card fee and commission | 620,053 | 447,378 |
| Non-cash loan commission | 186,941 | 163,095 |
| Collection and payment commissions | 87,185 | 73,448 |
| Investigation charges | 72,413 | 90,398 |
| Charge for early settlement of loan | 66,615 | 51,127 |
| Reinsurance commission | 44,623 | 30,596 |
| Account maintenance fee | 42,216 | 10,468 |
| Money transfer charges | 38,399 | 36,273 |
| Mutual funds commission | 27,319 | 20,990 |
| Other | 165,630 | 185,610 |
| **Total fee and commission income** | **1,351,394** | **1,109,383** |
| **Fee and commission expense** | | |
| Debit and credit card fee and commission | 329,086 | 291,122 |
| Fee and commission for funds borrowed | 31,109 | 22,414 |
| Fee and commission for marketable securities issued | 25,797 | 31,211 |
| Money transfer charges | 8,908 | 8,548 |
| Other | 86,213 | 81,632 |
| **Total fee and commission expense** | **481,113** | **434,927** |
| **Net fee and commission income** | **870,281** | **674,456** |

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

## 28. OTHER INCOME

As at and for years ended 31 December 2015 and 2014, other income comprised the followings:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Earned premiums | 768,048 | 663,933 |
| *Written premiums* | 823,958 | *816,911* |
| *Change in reserve for unearned premiums* | (55,910) | *(152,978)* |
| Gain on sale of fixed assets | 109,681 | 385,471 |
| Excess fee charged to customers for communication expenses | 50,723 | 85,302 |
| Individual pension business income | 64,583 | 48,626 |
| Dividend income from equity shares | 9,231 | 11,421 |
| Rent income | 80,431 | 529 |
| Reversal of miscellaneous provision | 21,000 | - |
| Others | 242,712 | 113,910 |
| **Total** | **1,346,409** | **1,309,192** |

## 29. SALARIES AND EMPLOYEE BENEFITS

As at and for the years ended 31 December 2015 and 2014, salaries and employee benefits comprised the following:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Wages and salaries | (661,418) | (605,769) |
| Other fringe benefits | (677,359) | (434,154) |
| Employer’s share of social security premiums | (203,975) | (178,076) |
| Provision for short term employee benefits | (3,961) | (231,829) |
| Provision for employee termination benefits | (27,419) | (11,070) |
| Change in provision for liability for unused vacations | (156,497) | (77,602) |
| **Total** | **(1,730,629)** | **(1,538,500)** |

The average number of employees of the Group during the year is:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| The Bank | 15,410 | 14,906 |
| Subsidiaries | 2,148 | 2,104 |
| **Total** | **17,558** | **17,010** |

**Reserve for employee severance indemnity**

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 3,828 and TL (full TL) 3,438 as at 31 December 2015 and 31 December 2014, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity’s obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2015 and 2014 are as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Discount Rate | 10.20% | 8.60% |
| Inflation Rate | 7.10% | 6.50% |
| Increase in Real Wage Rate | 8.10% | 7.50% |

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

## 30. OTHER EXPENSES

As at and for the years ended 31 December 2015 and 2014, other expenses comprised the following:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Incurred insurance claims | (931,051) | (602,631) |
| *Insurance claims paid* | *(614,410)* | *(528,299)* |
| *Change in provision for outstanding claims* | *(316,641)* | *(74,332)* |
| Banking services promotion expenses | (514,188) | (443,316) |
| Rent expenses and operating lease charges | (249,041) | (215,225) |
| Other provision expenses | (135,504) | (27,660) |
| Saving Deposit Insurance Fund premiums | (124,437) | (99,057) |
| Communication expenses | (95,425) | (88,913) |
| Advertising expenses | (78,071) | (72,060) |
| Cleaning service expenses | (54,331) | (46,359) |
| Maintenance expenses | (41,642) | (33,796) |
| Energy expenses | (29,776) | (26,611) |
| Computer usage expenses | (28,814) | (25,716) |
| BRSA participation fee | (23,781) | (20,369) |
| Office supplies | (22,863) | (19,332) |
| Consultancy expenses | (21,476) | (19,473) |
| Transportation expenses | (19,271) | (20,267) |
| Hosting expenses | (17,612) | (14,948) |
| Credit card promotion expenses | (14,493) | (20,132) |
| Individual pension business expenses | (1,495) | (2,311) |
| Loss on sale of assets | (1,231) | (36,077) |
| Other various administrative expenses | (534,730) | (370,483) |
| **Total** | **(2,939,232)** | **(2,204,736)** |

## 31. COMMITMENTS AND CONTINGENCIES

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

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Letters of guarantee | 26,797,593 | 21,458,807 |
| Letters of credit | 4,788,709 | 5,212,911 |
| Acceptance credits | 1,476,013 | 1,964,093 |
| Other guarantees | 57,586 | 39,236 |
| **Total non-cash loans (financial guarantee contracts)** | **33,119,901** | **28,675,047** |
| Credit card limit commitments | 7,399,361 | 7,641,987 |
| Loan granting commitments | 8,494,747 | 8,068,201 |
| Commitments for cheque payments | 1,805,569 | 1,638,976 |
| Commitments for credit card and banking operations promotions | 196,037 | 247,938 |
| Other commitments | 16,952,330 | 9,547,074 |
| **Total commitments** | **34,848,044** | **27,144,176** |
| **Total commitments and contingencies** | **67,967,945** | **55,819,223** |

### Contingent assets and liabilities

There are various legal cases against the Group for which TL 9,435 (31 December 2014: TL 16,142) has been provided, excluding routine insurance claims.

## 31. COMMITMENTS AND CONTINGENCIES (Continued)

Due to the nature of insurance business and considering the general attitude of the legal system in favor of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group's financial position.

**Pending tax audits**

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

## 32. SUBSEQUENT EVENTS

Vakıfbank bonds have been issued on 29.01.2016 amounting TL 400 million (Full TL) with 91 days maturity and redeemed on 29 April 2016, amounting TL 200 million (Full TL) with 175 days maturity and maturity date of which is 22 July 2016 and amounting TL 100 million (Full TL) with 210 days maturity date of which is 26 August 2016 and total amount of TL 700 million (Full TL) issued and offered to public through book-building on 25-26-27 January 2016

As a result, Vakıfbank bond with the ISIN Code TRQVKFB41645 which has 11.0432% annual compound interest 10.6129% simple interest and issue price was TL 97,422 with amounting TL, 484,757,595(Full TL) with 91 days maturity and maturity date of which is 29 April 2016. Vakıfbank bond with the ISIN Code TRQVKFB71626 which has 11.1828% compound interest, 10.8746% simple interest and issue price was TL 95,045 with amounting TL 85,506,425(Full TL) with 175 days maturity and maturity date of which is 22 July 2016. Vakıfbank bond with the ISIN Code TRQVKFB81617 which has 11.5485% compound interest, 11.2798% simple interest and issue price was TL 93,906 with amounting TL 85,506,425 (Full TL) with 210 days maturity and maturity date of which is 26 August 2016.

On April 20th, 2016, under the coordination of Wells Fargo Bank NA and National Bank of Abu Dhabi, Vakıfbank signed a 367-days term syndication loan agreement amounting USD 207 million and EUR 631.5 million with the participation of 30 banks from 15 countries. The loan will be used for trade finance purposes and the all-in cost is LIBOR +0.85% for USD tranche and EURIBOR +0.75% for Euro tranche.

Vakıfbank bonds, amounting TL 300 million (Fulll TL) with 119 days maturity and maturity date of which is August 26th, 2016, TL 200 million (Full TL) with 154 days maturity and maturity date of which is September 30th, 2016 and TL 100 million (Full TL) with 210 days maturity and maturity date of which is November 25th, 2016 have been issued and offered to public through book-building on April 25-26-27, 2016.

Vakıfbank bond issuance amounting TL 433.9 million (Full TL) with a maturity of 112 days to be sold qualified investors has been realized on April 29, 2016.

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