Türk Bankası Limited and Its Subsidiaries

Consolidated Financial Statements
As at and For the Year Ended
31 December 2015

June 22, 2016

Türk Bankası Limited and Its Subsidiaries

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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of Türk Bankası Limited

Introduction

We have audited the consolidated balance sheet dated December 31, 2015 of Türk Bankası Limited (the "Bank”) and its subsidiaries (collectively referred to as the “Group”) and the consolidated financial statements for the year then-ended, comprised of the consolidated profit or loss and other comprehensive income statements, consolidated statement of changes in equity, consolidated cash flow statement, footnotes summarizing important accounting policies and other explanatory notes.

Management’s Responsibility Regarding Consolidated Financial Statements

The Bank management is responsible for preparing and fairly presenting the consolidated financial statements in accordance with the International Financial Reporting Standards and internal audits deemed necessary by the management to ensure that the consolidated financial statements are free from material mistakes due to errors or fraud.

Responsibility of the Independent Auditor

Our responsibility is to express our opinion about these consolidated financial statements based on our independent audit. Our independent audit has been carried out in accordance with the International Independent Audit Standards. These standards require compliance with ethical provisions and carrying out independent audit to obtain a reasonable assurance that consolidated financial statements do not include any material mistake.

Independent audit includes application of audit procedures to obtain an audit proof about the amounts and explanations in the consolidated financial statements. The selection of these procedures is based on the professional judgment of the independent auditor, including an assessment of risks of "material mistake" due to error or fraud in the consolidated financial statements. The independent auditor evaluates the internal control in relation to preparation and fair presentation of the consolidated financial statements of the company for the purpose of designing audit procedures suitable to the conditions while evaluating the risks, but this assessment is not intended to express an opinion about the effectiveness of internal control of the company. In addition to the assessment of the submission of consolidated financial statements as a whole, the independent audit covers an assessment of the conformity of accounting policies used by the Bank management and whether the accounting estimates made are reasonable or not.

We believe that the independent audit evidences which we have obtained throughout the independent audit constitute an adequate and appropriate basis for the development of our opinion.

Opinion

In our opinion, the consolidated financial statements properly and fairly reflect the financial position of the Türk Bankası Limited and its subsidiaries as of December 31, 2015 as well as its consolidated financial performance and consolidated cash flows for the accounting period then-ended in accordance with the International Financial Reporting Standards.

Murat Alsan, Certified Public Accountant
Responsible Auditor
June 22, 2016, Istanbul, Turkey

Türk Bankası Limited and Its Subsidiaries
Consolidated Balance Sheet
As at 31 December 2015
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2015	31 December 2014	01 January 2014
ASSETS				
Cash and cash equivalents	7	518,850,049	380,906,125	335,530,378
Reserve deposits at central bank	8	53,506,427	45,843,042	46,397,249
Financial assets at fair value through profit or loss	9	392,329	477,383	2,463,553
Loans and advances to banks	11	14,573,785	11,724,743	15,663,081
Loans and advances to customers	12	682,942,998	575,071,442	526,296,863
Investment securities	13	144,055,034	169,387,387	180,569,060
Property and equipment	14	18,133,350	16,357,216	18,005,589
Intangible assets	15	5,089,254	4,509,480	1,397,782
Deferred tax assets	21	--	17,990	--
Other assets	15	9,128,130	5,800,711	5,780,188
TOTAL ASSETS		**1,446,671,356**	**1,210,095,519**	**1,132,103,743**
LIABILITIES AND EQUITY				
Financial liabilities held for trading	16	1,568,828	1,610,805	4,293
Deposits from banks	17	37,305,820	21,773,822	28,101,931
Deposits from customers	18	1,193,807,635	995,354,389	926,842,633
Funds provided under repurchase agreements	10	31,709,180	40,537,462	46,117,672
Subordinated loans	19	14,565,000	11,575,000	--
Other liabilities and provisions	20	11,646,514	7,383,889	8,019,731
Current tax liability	21	3,021,597	2,684,306	2,499,299
Deferred tax liability	21	1,836,456	1,459,306	1,266,078
TOTAL LIABILITIES		**1,295,461,030**	**1,082,378,979**	**1,012,851,637**
Share capital		73,534,074	70,031,964	64,485,657
Resevers		50,685,979	32,949,355	28,872,804
Retained earnings		11,883,176	10,429,075	11,975,611
Total equity attributable to owners of the parent		**136,103,229**	**113,410,394**	**105,334,072**
Non-controlling interests	23	**15,107,097**	**14,306,146**	**13,918,034**
Total equity		**151,210,326**	**127,716,540**	**119,252,106**
Total liabilities and equity		**1,446,671,356**	**1,210,095,519**	**1,132,103,743**

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Income
For the Year Ended 31 December 2015
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2015	31 December 2014
Interest income			
Interest income on loans and receivables		52,645,398	40,933,339
Interest income on marketable securities		10,636,057	11,294,668
Interest income on deposits		4,929,220	4,373,223
Interest income on interbank and other money market placements		32,609	--
Other interest income		54,982	94,102
Total interest income		**68,298,266**	**56,695,332**
Interest expense			
Interest expense on deposits		(25,670,957)	(23,700,975)
Interest expense on other money market		(416,343)	(63,013)
Interest expense on funds borrowed		(786,062)	(198,168)
Other interest expense		(4,103,490)	(406,571)
Total interest expense		**(30,976,852)**	**(24,368,727)**
Net interest income		**37,321,414**	**32,326,605**
Fees and commission income		12,795,729	10,988,457
Fees and commission expense		(2,509,934)	(2,130,401)
Net fee and commission income		**10,285,795**	**8,858,056**
Other operating income			
Net trading income		643,757	945,100
Net foreign exchange gain		3,527,553	2,290,150
Other income	25	3,426,666	4,874,736
Total operating income		**7,597,976**	**8,109,986**
Other operating expenses			
Personnel expenses	26	(23,769,581)	(21,007,679)
Incurred loan losses, net of recoveries	12	(940,862)	(393,444)
Depreciation and amortisation	14	(3,722,873)	(2,941,401)
Taxes other than on income		(348,583)	(116,142)
Other expenses	27	(18,272,587)	(16,517,578)
Total operating expenses		**(47,054,486)**	**(40,976,244)**
Profit before income tax		**8,150,699**	**8,318,403**
Income tax	21	(1,974,181)	(2,172,358)
Profit for the year		**6,176,518**	**6,146,045**

	Note	31 December 2015	31 December 2014
Profit for the year		**6,176,518**	**6,146,045**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		16,684,016	3,033,490
Net change in fair value of available-for-sale financial assets	23	450,931	529,972
Net change in fair value of available-for-sale financial assets transferred to profit or loss	23	376,180	269,218
Related tax	21	(194,371)	(187,809)
Other comprehensive income/(loss) for the period from continued operations, net of income tax		**17,316,756**	**3,644,871**
Total comprehensive income for the year		**23,493,274**	**9,790,916**
Profit attributable to:			
Owners of the Bank		5,394,699	5,714,255
Non-controlling interests		781,819	431,790
Profit for the year		**6,176,518**	**6,146,045**
Total comprehensive income attributable to:			
Owners of the Bank		22,692,323	9,402,804
Non-controlling interests		800,951	388,112
Total comprehensive income for the year		**23,493,274**	**9,790,916**
Earnings per 100 share on profit for the year (full TL)	22	0.0834	0.0865

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2015
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

		Attributable to Owners of the Parent							
			Reserves						
	Note	Share Capital	Available-for-sale reserve, net of tax	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2014		**64,485,657**	**(897,496)**	**13,798,105**	**15,972,197**	**10,648,587**	**104,007,050**	**13,918,034**	**117,925,084**
Profit for the period		**--**	**--**	**--**	**--**	**5,714,255**	**5,714,255**	**431,790**	**6,146,045**
Total comprehensive income for the period		**--**	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Foreign currency translation differences		--	-	3,077,168	--	--	3,077,168	(43,678)	**3,033,490**
Net change in fair value of available-for-sale financial assets	23	--	405,429	--	--	--	405,429	**-**	**405,429**
Net change in fair value of available-for-sale financial assets transferred to profit or loss	23	--	205,952	--	--	--	205,952	**--**	**205,952**
Total other comprehensive income		**--**	**611,381**	**3,077,168**	**-**	**-**	**3,688,549**	**(43,678)**	**3,644,871**
Total comprehensive income for the period		**--**	**611,381**	**3,077,168**	**-**	**5,714,255**	**9,402,804**	**388,112**	**9,790,916**
Capital increase		540	--	--	--	--	540	--	540
Capital increase through bonus shares		5,545,767	--	--	--	(5,546,307)	--	--	--
Transfer to reserves		--	--	--	388,000	(388,000)	--	--	--
Total contributions by and distributions to owners of the parent, recognized directly in equity		**5,546,307**	**--**	**--**	**388,000**	**(5,933,767)**	**540**	**--**	**540**
Balances at 31 December 2014		**70,031,964**	**(286,115)**	**16,875,273**	**16,360,197**	**10,429,075**	**113,410,394**	**14,306,146**	**127,716,540**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

		Attributable to Owners of the Parent							
			Reserves						
	Note	**Share Capital**	**Available-for-sale reserve, net of tax**	**Currency translation reserve**	**Legal reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2015		**70,031,964**	**(286,115)**	**16,875,273**	**16,360,197**	**10,429,075**	**113,410,394**	**14,306,146**	**127,716,540**
Profit for the period		**--**	**--**	**--**	**5,394,699**	**5,394,699**	**781,819**	**6,176,518**	**--**
Total comprehensive income for the period									
Foreign currency translation differences		--	--	16,664,884	--	--	16,664,884	19,132	**16,684,016**
Net change in fair value of available-for-sale financial assets	23	--	344,962	--	--	--	344,962	--	344,962
Net change in fair value of available-for-sale financial assets transferred to profit or loss	23	--	287,778	--	--	--	287,778	--	287,778
Total other comprehensive income		**--**	**632,740**	**16,664,884**	**--**	**--**	**17,297,624**	**19,132**	**17,316,756**
Total comprehensive income for the period		**--**	**632,740**	**16,664,884**	**-**	**5,394,699**	**22,692,323**	**800,951**	**23,493,274**
Capital increase		512	--	--	--	--	512	--	512
Capital increase through bonus shares		3,501,598	--	--	--	(3,501,598)	--	--	--
Transfer to reserves		--	--	--	439,000	(439,000)	--	--	--
Total contributions by and distributions to owners of the parent, recognized directly in equity		**3,502,110**	**--**	**--**	**439,000**	**(3,940,598)**	**512**		**512**
Balances at 31 December 2015		**73,534,074**	**346,625**	**33,540,157**	**16,799,197**	**11,883,176**	**136,103,229**	**15,107,097**	**151,210,326**

	Note	31 December 2015	31 December 2014
Cash flows from operating activities			
Profit for the year		6,176,518	6,146,045
Adjustments:			
Income taxes expenses	21	1,974,181	2,172,358
Incurred loan losses, net of recoveries	12	940,862	393,444
Depreciation and amortization	14	3,832,381	2,985,459
Changes in unearned premium provision	25	226,522	72,918
Changes in outstanding claims provision		174	(65)
Other provision expenses		4,035,927	708,694
Net Interest income		37,321,414	32,326,605
Foreign currency translation differences		16,684,016	3,033,490
		71,191,995	**47,838,948**
Loans and advances to banks		(2,849,042)	3,938,338
Reserve deposits at central bank		(7,663,385)	554,207
Financial assets at fair value through profit or loss		85,054	1,986,170
Loans and advances to customers		(107,871,556)	(48,774,579)
Other assets		22,004,934	11,161,150
Deposits from banks		15,531,998	(6,328,109)
Deposits from customers		198,453,246	68,511,756
Funds provided under repurchase agreements		(8,828,282)	(5,580,210)
Other liabilities and provisions		(78,187,801)	(33,068,522)
		101,867,161	**40,239,149**
Interest received		12,795,729	10,988,457
Other liabilities and provisions		(2,509,934)	(2,130,401)
Paid taxes other than on income		(348,583)	(116,142)
Net cash provided by / (used in) operating activities		**111,804,373**	**48,981,063**
Cash flows from investing activities			
Purchases of property and equipment	14	(2,638,165)	(5,848,277)
Purchases of intangible assets	14	(1,131,535)	(2,518,602)
Net cash provided by / (used in) investing activities		**(3,769,700)**	**(8,366,879)**
Cash flows from financing activities			
Proceeds from capital increase		512	540
Net cash provided by / (used in) financing activities		**512**	**540**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		29,848,995	4,406,214
Net increase in cash and cash equivalents		137,884,180	45,020,938
Cash and cash equivalents at the beginning of the year		380,551,316	335,530,378
Cash and cash equivalents at the end of the year	7	**518,435,496**	**380,551,316**

Footnotes to the consolidated financial statements

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(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

1. General information about the Bank

(a) Short history

Türk Bankası Limited (the "Bank") was founded on July 1, 1901 by tradesmen and merchants led by Mufti Ziyai Efendi. The name of the Bank at the date of its foundation was "İslam İddihar Sandığı" (*Islamic Savings Fund*), with a function to create resources for the social economy. New managers were employed in the scope of modernization efforts initiated in 1938. Despite the Second World War, the modern management understanding was further improved, and its capital was doubled in 1943, and the name of the Bank was changed to Lefkoşa Türk Bankası Ltd. It opened foreign branches in Turkey and in UK between the years 1974 and 1983, and as of 1991, it converted each of its Turkish and British branches into independent local banks of the countries where they were located, and constituted the Türk Bankası Group.

The Türk Bankası Group consists of 4 individual banks located in the Turkish Republic of Northern Cyprus ("TRNC"), Turkey and UK and the affiliates of these banks, and operates only in the finance sector. With a paid-up capital of TRY 73,534,074, Türk Bankası Ltd is a private bank of the Group acting in TRNC, providing services to its customers with 20 Branches and 26 ATMs.

Information about consolidated subsidiaries

Turkish Bank (UK) Ltd

Turkish Bank (UK) Ltd is a subsidiary of Türk Bankası Ltd founded in TRNC in 1901. The group started operating in UK with its Harringay Branch in 1974, and established Turkish Bank (UK) Ltd in 1991 with its Harringay, Dalston and Elephant and Castle Branches. Turkish Bank (UK) Ltd is currently focused on retail banking with its Borough Central Branch, Harringay, Dalston, Edmonton, Palmers Green and Mayfair (Private Banking) Branches, and also offers commercial banking services.

Türk Sigorta Ltd

Türk Sigorta Ltd started its activity as a separate entity under the name Saray Sigorta Ltd in 1996. Currently serving with the name Türk Sigorta Ltd, the entity assumes risks for potential losses by issuing policies against risks that the assets of its customers may face. It offers services through the branches of Türk Bankası and agents of Türk Sigorta Ltd.

(b) Shareholding structure

As of December 31, 2015, the paid-up capital is TRY 73,534,074 (December 31, 2014: TRY 70,031,964, January 1, 2014: TRY 64,485,657). The shareholding structure of the Bank is as follows:

Name	Share Amounts	Share Ratios (%)	Paid-up Shares
Tolunay Ltd	27,139,494	36.91	27,139,494
T.Özyol Yatırımları Ltd	26,718,705	36.34	26,718,705
Özyol Holding AŞ	9,015,038	12.26	9,015,038
Pektan Şti. Ltd	3,731,783	5.08	3,731,783
Saray Kredi Şti. Ltd	3,675,537	5.00	3,675,537
Other	3,253,517	4.41	3,253,517
Paid-up capital	**73,534,074**	**100.00**	**73,534,074**

2. Basics of presentation

(a) Declaration of conformity

The attached consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") have been prepared in accordance with the International Financial Reporting Standards.

The consolidated financial statements in question are the first financial statements in which the Group has applied the IFRS and IFRS 1 "First Application of International Financial Reporting Standards". Note 31 contains explanations about the first financial statements of the Group prepared in accordance with IFRS.

The attached consolidated financial statements were approved by the Bank management on June 22, 2016.

(b) Valuation principles

The attached consolidated financial statements have been prepared according to the inflation-adjusted historical cost principle until 31 December 2006, which is accepted as the ending date of high inflationary period, except for financial assets reflected at fair value through profit/loss, derivative financial assets and liabilities held-for-trading, available-for-sale financial assets, and equity securities, which are measured at fair value where fair values can be reliably determined.

(c) Functional and reporting currency

The attached consolidated financial statements have been presented in TRY, the functional currency of the Bank and Türk Sigorta Ltd. Unless otherwise stated, financial assets expressed in TRY are shown as figures rounded up to the nearest "integer". Among the consolidated subsidiaries, Turkish Bank (UK) Ltd's functional currency is GBP, and its financial statements have been included in the consolidated financial statements in TRY which is the reporting currency.

(d) Accounting estimates and interpretations

Preparation of consolidated financial statements as per IFRS, requires making certain estimates and interpretations which may affect the amounts of reported assets and liabilities, incomes and expenses, and application of accounting principles. Estimates and underlying assumptions are based on past experience, other various factors that are believed to be reasonable, and results which constitute a basis for deciding about the values of assets and liabilities that are not clearly seen in other resources. Actual results may differ from the current estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected of such revisions.

Below are information about assumptions and estimation uncertainties with serious risks that may cause material changes in the next accounting period as well as information about critical decisions which will have the most impact on the amounts presented in the attached financial statements during the application of accounting policies. These explanations appear to support the comments on financial risk management.

Impairment

Assets recognized at amortized cost have been evaluated for impairment as described in Note 3 (i) - *Impairment of financial assets*.

Special provisions within the total reserves allocated for impairment of financial assets, and the relevant financial assets are individually evaluated, and the present value of expected cash flows are based on the best estimate of the management. In the estimation of cash flows, the management decides about the financial status of the debtor and the net realizable value of the security.

2. Basics of presentation (*continued*)

(d) Accounting estimates and interpretations (*continued*)

Elements taken into account for the collective provision within the total provisions;

- Regularly distributed debt groups which are not individually important,
- Groups of assets which are individually important, but have not been impaired.

The collective provision for regularly distributed debt groups are found by using the "default rate" method, or in the case of smaller portfolios about which sufficient information is not available, by using statistical methods such as a formula based on historical loss rate experience. The "default rate" method estimates the amount of loss using the past default data in statistical analysis. The estimate of loss based on past data is reviewed in order to make sure that it reflects the economic positions and the product mix at the report date.

The collective provision for asset groups that are individually important but have not been impaired covers loan losses in the loan and advance portfolios, and held-to-maturity investments with similar credit risk characteristics involving impaired loans and advances, and impaired held-to-maturity investments which cannot be identified. While evaluating the provisions for collective losses, the management takes into account factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required reserve, assumptions are made to define modeling methods for the losses and to determine the required input parameters according to past experience and current economic conditions. The accuracy of provisions is contingent upon future cash flow estimates of counterparty special provisions, model assumptions and parameters.

Equity investments have been evaluated for impairment as described in Note 3 (i) - *Impairment of financial assets*.

Evaluating whether public debt investments have been impaired or not, may be a complex issue. When performing such evaluation, the Group takes the following factors into account:

- Market evaluation of the creditworthiness reflected on bond returns
- Evaluation of creditworthiness by rating agencies
- Adequacy of access to the country's capital markets for the issue of new debt
- Possibility of restructuring of debt through voluntary or mandatory debt relief which results in losses for the holder

Fair value

Determination of fair values of financial assets and liabilities which do not have observable market prices requires using valuation techniques. Because fair value is less objective for financial assets that are rarely traded and have a lower price transparency, a decision has to be made subject to liquidity, concentration, uncertainty of market factors, and other factors affecting pricing assumptions and tools.

Fair value measurements have been addressed in the Group's accounting policy Note 3 (i) - *Measurement*.

The Group has calculated fair values of the inputs that were used while performing measurement according to the following hierarchy:

- Level 1: Quoted (non-adjusted) prices in active markets for identical assets.
- Level 2: Valuation methods based on observable inputs and obtained directly from prices, or indirectly from prices. This category includes instruments that are valued using quoted prices in active markets for similar instruments, or quoted prices for identical or similar

instruments which are considered to be less active in the market, or all key inputs that are derived directly/indirectly from observable market data by correlation or other means.

- Level 3: Valuation methods that use unobservable key inputs This category includes valuation methods that are not based on observable inputs, and unobservable inputs that have an important effect on the valuation of an instrument. This category includes instruments that are valued using quoted prices that reflect important unobservable changes and assumptions for identical instruments.

The fair values of financial assets and liabilities that are traded on an active market are contingent upon quoted market prices or price quotations. The Group finds fair values of all other financial instruments using valuation methods.

Compared with similar instruments for which observable market prices are available, valuation methods cover net present value and discounted cash flow models. Assumptions and inputs used in valuation methods include interest rates that are risk free and comparable, credit commission rates and other variables used in estimating discount rates, bond and stock prices, foreign exchange rates, stock and stock index prices, expected price fluctuations and correlations. The purpose of valuation methods is to determine the fair value of a financial instrument that reflects its price at the reporting date.

The Group employs valuation methods that use only observable market data and are broadly employed to determine the fair values of financial instruments that are widespread and easier such as interest rates and currency swap which reduce the requirement for the management's decisions and estimations. Observable prices and model inputs for simple over-the-counter derivatives such as debts and stocks, currency swap derivatives, interest swaps are generally available in the markets. Availability of observable market prices and model inputs reduce the need for the management's decision-making and estimation, and reduce the uncertainty in determining fair value. Accessibility of observable market prices changes subject to the product and market, and is open to change subject to specific events and general situation in the financial markets.

As described in Note 4 (d) - *Fair value indication*, the fair value of financial instruments shown in the statement have been analyzed as of the end of reporting period according to fair value measurement ranking.

Classification of financial assets and liabilities

The Group's accounting policies specify different accounting categories in certain cases regarding accounts in which assets and liabilities are to be initially recognized.

- When classifying financial assets as "held-for-trading", the Group has decided that assets and liabilities held-for-trading comply with the definition as described in Note 3 (i).
- When determining fair value of financial assets and liabilities through profit or loss, the Group has decided that the Group's criteria specified in Note 3(i) are appropriate.
- When classifying financial assets held to maturity, the Group has decided to hold the assets until maturity as required in Note 3 (l).

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

3. Key accounting policies

(a) Consolidation principles

The accounting policies presented below have been applied consistently in all periods presented comparatively in the attached consolidated financial statements of the Group.

The attached consolidated financial statements reflect the accounts of the Bank which is the Parent Company, its subsidiaries and affiliates as shown below. The financial statements of the companies in the scope of consolidation have been prepared as of the same date as that of the consolidated financial statements attached. Information about consolidated companies is presented in Note 29.

Subsidiaries

Subsidiaries are companies that are controlled by the Group. Control refers to the power of the Group to play an effective role in decisions regarding the financial and operational policies of a business in order to derive benefit from the operation of the business. While evaluating control, potential voting rights of redeemable or convertible bonds are also taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from such date control is formed until such date control ends. The financial statements of subsidiaries have been prepared using the same accounting policies for similar transactions and events.

Mutually deleted transactions in consolidation

Intra-group balances and intra-group transactions and unrealized earnings and expenses arising from intra-group transactions are mutually deleted in the preparation of consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies

Transactions are recorded in the functional currencies of the Companies. A transaction effected in a foreign currency is recorded at the exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated to the functional currency at the exchange rates effective at the reporting date, and translation differences arising from the conversion have been reflected to the attached consolidation comprehensive income statement as foreign exchange gain or loss.

The official buying exchange rates used by the bank in foreign currency operations are as follows:

	Euro/TRY	USD / TRY	GBP/TRY
31.12.2015	3.1921	2.9084	4.3141
31.12.2014	2.8339	2.3235	3.6090
31.12.2013	2.9844	2.1604	3.5601

Foreign operations

The functional currency of Turkish Bank (UK), the Group's subsidiary abroad is GBP, and the financial statements of the relevant subsidiaries are translated to TRY which is the reporting currency for consolidation purposes in accordance with the principles specified in the following paragraphs.

- The assets and liabilities of foreign operations are translated to TRY at the exchange rates effective at the balance-sheet date.
- The incomes and expenses of foreign operations are translated to TRY at average exchange rates.

3. Key accounting policies *(continued)*

(b) Foreign currency (*continued*)

Foreign operations (*continued*)

- Translation differences arising from conversion of the financial statements of net investments abroad into the reporting currency of these consolidated financial statements for consolidation purposes are accounted for under other comprehensive income as foreign currency translation differences. In case a foreign investment is sold in part or in whole, the relevant amounts in the foreign exchange translation differences are transferred to the consolidated comprehensive income statement as part of sales profit or loss.

(c) Interest incomes and expenses

Interest incomes and expenses, except overdue loans, are reflected in the comprehensive income statement using the effective interest method. Effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial asset or liability to its carrying amount (where applicable, for shorter periods). In the calculation of the effective interest rate, the Group estimates cash flows taking into account all contractual conditions of the relevant financial instrument without considering future credit losses.

Effective interest rate calculation covers discounts and premiums which are inseparable parts of effective interest, and fees and commissions paid or received, and transaction costs. Transaction costs are additional costs that are related to the acquisition, issue or disposal of a financial asset or liability.

In the consolidated comprehensive income statement, interest incomes and expenses include;

- Interests calculated at amortized costs of financial assets and liabilities that are calculated using the effective interest rate method;
- Interests calculated using the effective interest rate method on securities classified as available-for-sale financial assets;
- Interests earned from financial assets reflected at fair value through profit or loss until the same are disposed of.

(d) Fees and commissions

Fee and commission incomes and expenses which are inseparable parts of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other commissions and fees such as account maintenance fee, investment management fee, sales commission, placement and syndication fees and insurance commissions (also see the explanation in accounting policy (r)) are recognized as the relevant services are rendered in accordance with the accrual principle.

If a loan commitment is not expected to result in delinquency, loan commitment fees are recognized linearly throughout the period of commitment.

In fact, other fees and commissions comprised of transaction and service fees are expensed at such date the service is provided.

3. Key accounting policies *(continued)*

(e) Net capital market transaction profit

Net capital market transaction profit includes earnings and losses arising from disposal of financial assets reflected at fair value through profit or loss and available-for-sale financial assets, and earnings and losses arising from derivatives held-for-trading.

(f) Dividend

Dividend incomes are recognized when the right to receive relevant dividend occurs. Dividend incomes are shown within other operating income in the attached consolidated financial statements.

(g) Lease payments made

Payments made for operating leases are recorded in the consolidated comprehensive income statement as expenses at equal amounts using the straight line method throughout the lease term.

Minimum lease payments made under financial leasing consist of two parts including financial expenses and amount deductible from existing debt. Financial costs arising from leasing are spread over the periods to constitute a fixed interest rate throughout the lease term.

(h) Income taxes

Income tax expense comprises current year income tax and deferred tax expenses. The current year income tax and deferred tax expenses are accounted for under profit or loss to the extent they are related to elements directly accounted for under equity or other comprehensive income.

Corporation tax

TRNC

Türk Bankası Ltd and Türk Sigorta Ltd pay 10% corporation tax over their taxable income, and 15% income tax over the balance that remains after deducting corporation tax. Total tax liability is 23.5% (December 31, 2014: 23.5%, December 31, 2013: %23.5). This rate is applied to the tax base which is determined by adding non-deductible expenses to the commercial income of the corporation pursuant to the tax laws and deducting the exclusions and discounts set forth in the tax laws.

Subsidiaries established abroad

Turkish Bank (UK) Ltd pays 20.25% corporation tax over its taxable income (December 31, 2014: 21.50%, December 31, 2013: %23.25).

Deferred taxes

Deferred tax assets or liabilities are calculated over the "temporary differences" between the amounts of assets and liabilities shown in the consolidated financial statements and the amounts used in calculating the legal tax base, which will be subject to tax or tax discounts in the future. According to the tax legislation, differences which do not affect the financial or commercial profit that arises at the acquisition date of assets or liabilities are excluded from such calculation.

Deferred tax assets and deferred tax liabilities are shown in the consolidated financial statements in net terms only if the Group has a legal right to offset its current tax assets against its current tax obligations and the deferred tax asset and liability is related to the income tax of the same taxable entity.

3. Key accounting policies *(continued)*

(i) Financial instruments

Recognition

The Group recognizes its loans, advances and deposits at such dates they arise. Purchases and sales of financial assets are recognized at such transaction dates when the Group has promised to purchase or sell such asset. All other financial assets and liabilities are recognized at the date of the commercial transaction when the Group becomes a party to the contractual conditions of the relevant financial asset or liability.

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

Classification

Financial assets reflected at fair value through profit or loss are comprised of held-for-trading financial assets and derivative financial instruments which the Group has essentially acquired in order to sell at a near date. All held-for-trading derivative financial instruments that are in a net receivable position are shown under the account of financial assets reflected at fair value through profit or loss; whereas held-for-trading derivative financial instruments that are in a net payable position are shown under the account of other obligations and provisions as financial liabilities reflected at fair value through profit or loss.

Held-to-maturity investments are financial assets which the Group has the intention and ability to hold until maturity and which cover fixed or determinable payments and have a fixed maturity. This class covers certain debt securities.

Loans and receivables are non-derivative financial assets which have fixed or determinable payments, which are not listed in any active market and which the Group has not the intention to sell immediately or in near future. Loans and receivables arise from receivables which occur as a result of provision of money, services and goods to debtors by the Group and which the Group does not have the intention to trade. Loans and receivables consist of loans and advances to banks and customers.

When the Group purchases a financial asset and becomes, at the same time, a party to a contract to sell that asset (or a similar asset) at a fixed price in the future ("reverse repo"), the transaction is recorded as a loan and receivable and the asset in question is not included in the Group's consolidated financial statements. Such kind of financial assets are also shown in the consolidated balance-sheet.

Available-for-sale financial assets are financial assets other than loans and receivables to banks and customers, held-to-maturity investments, and financial assets held for trading.

Financial liabilities are liabilities based on a contract that requires the provision of cash or another financial asset to another entity.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Measurement

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

After recognition, financial assets reflected at fair value through profit or loss and all available-for-sale financial assets are measured at fair value. However, if there is no active price in the market for such financial assets or the fair value cannot be reliably measured, these are accounted for at their acquisition cost which also includes their transaction costs, after deducting provisions for impairment, if any.

Financial liabilities that are not held for trading, loans and receivables and held-to-maturity investments are accounted for at their amortized cost calculated as per the effective interest method, after deducting provisions for impairment, if any. The amortized cost of a financial asset or liability is calculated by adding to or deducting from the initial acquisition cost measured at initial recognition the total amortization amount which is calculated using the effective interest method over the difference between the initial recognition value of the relevant financial asset or liability and its value at maturity and deducting principal payments and provisions for impairment if any.

Fair value measurement principles

Fair values of financial instruments are regarded as the quoted market prices without taking into account the transaction costs at the reporting date. If any quoted market price is not available, the fair value of a financial instrument is estimated using the pricing models or discounted cash flows. In cases where the discounted cash flows technique is used; estimated future cash flow depends on the best estimates to be made by the management, and the discount rate depends on the rates of similar instruments traded in qualified markets which are identical in terms of interest, maturity and similar other conditions. In cases where the pricing models are used, the data to be used in fair value estimation depend on the market data at the reporting date.

The fair values of derivative financial instruments that are not traded in the market are found by estimating the amounts due to or payable by the Group if the contracts expire at the reporting date, taking also into account creditworthiness of the counterparty and the current market conditions.

Gains and losses in future valuations

Gains and losses that arise due to changes in fair values of financial assets are accounted for in the capital market transaction profit account in the consolidated comprehensive income statement.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Gains and losses in future valuations (*continued*)

Gains or losses arising from changes in the fair values of available-for-sale financial assets are shown under other comprehensive income as "available-for-sale financial assets valuation differences". Total gains or losses arising in other comprehensive income accounts due to disposal of the relevant financial assets are transferred to the profit/loss accounts. Interests derived from available-for-sale financial assets, held-to-maturity investments and financial assets reflected at fair value through profit or loss are accounted for as interest income in the consolidated financial income statement.

Derecognition

Financial assets are derecognized in case the Group loses its control over the contractual rights in the relevant assets. This situation occurs when these rights materialize, expire or are delivered. Available-for-sale financial assets and financial assets reflected at fair value through profit or loss are derecognized at such date when the Group makes a commitment to sell such assets, and the collections to be made in return for payments by the purchaser in relation thereto are recognized at the same date.

Profits or losses due to disposal of assets are determined according to the basic cost method.

Held-to-maturity financial investments and loans and receivables are derecognized at such date when the same are transferred by the Group to the counterparty.

The Group derecognizes a financial debt only if the contractual liability is fulfilled, cancelled or prescribes.

Netting

Financial assets and liabilities are offset and are shown on a net basis in the consolidated financial statements only if the Group has the right of offset and power of sanction and the Group has the intention to collect/pay the related financial asset and liability on a net basis, or the right to settle the relevant financial asset and liability concurrently.

Incomes and expenses are shown on a net basis only when accounting standards permit so, or for gains and losses arising from similar transactions of the Group such as trading.

Special instruments

Cash and cash equivalents: Cash and cash equivalents that constitute a basis for the preparation of consolidated cash flow statement include cash, foreign currency, cheques, deposits held at TRNC Central Bank and Bank of England, receivables from monetary markets, and short-term loans and receivables to banks with a maturity less than 3 months.

Investments: Investments held to derive short-term profits are classified as financial instruments held-for-trading; investments which the Group has the intention and ability to hold until maturity are classified as held-to-maturity financial assets.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Special instruments (*continued*)

Loans and advances to banks and customers: Loans and advances supplied to banks and customers by the Group are classified as loans and receivables, and are shown at estimated collectible amounts which remain after deducting provisions made.

Banks and customer deposits and loans obtained: Banks and customer deposits and loans obtained are the Group's debt sources. Banks and customer deposits and loans obtained are recognized at acquisition cost which also includes the transaction cost, and thereafter, measured at amortized cost according to the effective interest rate method.

Impairment of financial assets

Assets held at amortized cost

In respect of recognition of impairment losses under income items, the Group decides whether there are observable data which show a decrease in the measurable estimated data in the debt portfolio and individual debts.

Objective findings showing that financial assets and asset groups for which observable data are available according to the Group are about the following events;

(a) Important financial distress suffered by the issuer or debtor;
(b) A breach of contract such as delays in payment of interests and principal which exceed 90 days;
(c) Concessions given by the Group for the financial distress that the debtor suffers due to economic and legal reasons;
(d) Bankruptcy or likelihood of the debtor to initiate other financial structuring;
(e) Loss of the active market for the financial asset due to a financial difficulty;
(f) In relation to a financial asset group with a measurable decrease in expected future cash flows although a decrease cannot be determined individually in any financial asset within the group:

- Adverse changes in the solvency of the debtor
- National or local economic conditions that are related to delays of payment relating to assets within the group;

All debts with principal and interest payments past due by 90 days are considered to be impaired, and are individually evaluated.

If there are objective findings that impairment losses have occurred in liabilities and receivables held at amortized cost or in held-to-maturity investments, the amount of loss is measured by calculating the difference between the carrying value of the asset and the estimated recoverable amount of the present value of expected cash flows discounted using the effective interest rate. The estimated recoverable amount of securitized financial assets is measured over the amount at which the mortgage is confiscated, irrespective of whether confiscation of mortgage is likely or not. The carrying value of the asset is reduced by using a provision account. The amount of loss is accounted for under income items.

The Group first evaluates objective findings showing whether individually important financial assets or individually or collectively unimportant financial assets have suffered impairment or not. If there is no objective finding showing that an individually evaluated financial asset is impaired, the asset is included in the group of financial assets which have the same credit risk characteristics. This group is evaluated collectively for impairment. Assets that are evaluated individually for impairment are not subject to a collective evaluation.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Impairment of financial assets (*continued*)

The present value calculation of expected future cash flows of securitized financial assets reflects the cash flows of the amount at which the mortgage is confiscated, irrespective of whether confiscation of mortgage is likely or not. Financial assets are grouped according to the same credit risk characteristics in order to evaluate impairment collectively. These characteristics are related to the expected future cash flows of this type of asset groups which show the capacity of a debtor to make all payments according to the contractual conditions.

The future cash flows of a financial asset group which is collectively evaluated for impairment are estimated based on the contractual cash flows of the assets in the Group and the historical lost experience of assets showing similar credit risk characteristics within the Group. To reduce differences between actual losses and estimated losses, the Group regularly reviews the methodologies and assumptions used in estimating future cash flows.

Assets held at cost

If an unlisted stock or a derivative financial instrument linked to an unlisted stock which is not held at fair value since fair value cannot be reliably measured is subject to impairment, the amount of loss is measured as the difference between the carrying value of the asset and the present value of the recoverable amount of the asset.

Assets held at fair value

In each reporting period, the Group evaluates the objective findings showing whether a financial asset or a group of financial assets has been subject to impairment or not. Available-for-sale investments are subject to impairment if there is a substantial and continuous decrease in fair values which drop below the cost. If an available-for-sale asset has been impaired, the difference between the cost (net value of principal payment and depreciation) the actual fair value is transferred from equity to income.

(j) Repurchasing agreements

The Group makes sales/purchase agreements in order to repurchase/resell financial assets at a fixed price at a certain future date. Financial assets purchased with a commitment to sell them back in the future are not included in the financial statements. Amounts that are collected as a result of sale of financial instruments under a repurchase commitment are shown in the attached consolidated financial statements under the account of funds derived from repo transactions.

Incomes and expenses arising from sales and repurchase agreements are recognized according to the accrual principal throughout the transaction, and are shown under "interest incomes" and "interest expenses" accounts.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

3. Key accounting policies (continued)

(k) Tangible assets

The costs of tangible assets acquired prior to January 1, 2007 have been adjusted according to effects of inflation pursuant to law number 66/1999 for the period from acquisition date of assets until December 31, 2006 which is regarded as the ending date of the hyper-inflationary period.

Prior to December 31, 2006, inflation adjustment was performed over the new value which was found by subtracting, if any, exchange rate differences, financing expenses and revaluation increases from the cost of the tangible asset which was to be adjusted for the first time. Tangible assets purchased after December 31, 2006 are recognized at cost.

Gains and losses due to disposal of tangible assets are calculated as the difference between the net sales income and the net carrying value of the relevant tangible asset, and are reflected in the consolidated comprehensive income statement. The expenses incurred for ordinary maintenance and repair of tangible assets are recognized as an expense. For tangible assets, the straight line depreciation method is used.

Rates and time periods prescribed as estimated economic lives that are used in the depreciation of tangible assets are as follows:

Tangible Assets	Estimated Economic Life (Years)	Depreciation Rate (%)
Buildings	33	3
Office machinery, furniture, fixtures and vehicles	5-10	10-20
Assets obtained via financial leasing	4-5	20-25

In accounting estimates, there are no changes which have a significant effect on the current period or are expected to have a significant effect on subsequent periods.

(l) Intangible assets

The Group's intangible assets are comprised of software programs. Intangible assets are recognized at cost.

Costs of intangible assets; the costs of intangible assets acquired prior to January 1, 2007 have been adjusted according to effects of inflation pursuant to law number 66/1999 for the period from acquisition date of assets until December 31, 2006 which is regarded as the ending date of the hyper-inflationary period. For intangible assets, the straight line depreciation method is used. Economic lives of intangible assets change between 3 – 15 years, and parallel to that, depreciation rates change between 33.33% and 6.66%.

3. Key accounting policies *(continued)*

(m) Impairment of non-financial assets

The Group evaluates whether there is any indication that a non-financial asset has been subject to impairment as of each reporting date, except deferred tax assets. If there is any such indication for an asset or group of assets, the recoverable amount of the relevant asset is estimated.

A provision for impairment is set aside 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 which can generate cash flows independently of other assets and groups. Impairment losses are accounted for in the consolidated comprehensive income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost of sales. Value-in-use is determined by discounting expected future cash flows to the present value using a pretax discount rate which reflects the risks inherent to the relevant asset and the time value of money.

In each reporting period, it is evaluated that there is no indication that impairment provisions set aside for other assets in the previous years have been reduced or disappeared. Impairment is reversed with a reverse entry in case of a change in the estimates used in the determination of recoverable amount. Provision for impairment may be reversed with a reverse entry unless the carrying value exceeds the off-balance sheet value, net of depreciation, which will be determined in case no impairment exists.

(n) Provisions

If there is any current liability arising from past events, the fulfillment of the liability is possible and the amount of such liability can be reliably estimated, a provision is accounted for. Provisions are determined by discounting expected future cash flows to the present value using a pretax rate which reflects the risks inherent to the liability and the time value of money.

To be able to account for a provision for restructuring, the Group must have a detailed and formal plan, and implementation of restructuring must be started or announced. No provision is set aside for operational expenses to occur in the future.

(o) Employee benefits

Provision for severance pay

According to the labor law effective in the countries where the Bank and its subsidiaries have existence, a severance pay obligation does not arise against the employer if the employer terminates the employee's contract or the employee becomes entitled to retire.

Other employee benefits

The Group has allocated a provision in the attached consolidated financial statements for undiscounted employee benefits which are expected to be paid for services rendered by the employees throughout the accounting period.

(p) Assets held in custody

Assets other than cash deposits which the Group holds on behalf of its customers and public institutions in its capacity as attorney or agent have not been shown in the attached consolidated balance-sheet since they are not the assets of the Group.

3. Key accounting policies *(continued)*

(r) Insurance contracts

The Group signs insurance contracts with customers that contain insurance risks through its partner operating in the insurance sector. Contracts by which the Company assumes an important insurance risk by agreeing to indemnify the policyholder if a pre-defined future event that causes a negative effect on the policyholder (an event secured by insurance) occurs are classified as insurance contracts. Insurance risk covers all risks other than financial risk.

Insurance and investment contracts issued/signed by our subsidiary operating in the insurance sector are recognized as follows:

Earned premiums: Premiums derived from insurance contracts are recognized proportionally throughout the term of the policy for such amount that remains after the premiums assigned to reinsurers are deducted. Such portion of the accrued premiums for insurance contracts in effect that extend over to the next accounting period or periods based on the number of days and on a gross basis without applying any commission or any other discount are recorded as unearned premiums reserve. Premiums are shown without deducting received or given commissions and deferred production costs, the relevant taxes or fees are the net amounts reflected.

Unearned premium reserve: Unearned premium reserve consists of such portion of the accrued premiums for insurance contracts in effect that extend over to the next accounting period or periods based on the number of days and on a gross basis without applying any commission or any other discount. Unearned premium reserve is set aside for all insurance contracts other than insurance contracts for which actuarial reserves are set aside. Unearned premium reserve is shown under “other liabilities and provisions" in the attached consolidated balance-sheet.

Outstanding losses and claims reserve: Outstanding losses and claims reserves are set aside for indemnification amounts that have been incurred, calculated, but not actually paid in previous accounting periods or the current accounting period, or if such an amount could not be calculated, for estimated amounts, and for relevant file expenses. Also, incurred but not reported losses and claims are taken into account as described below. The outstanding losses and claims reserve is shown under other liabilities and provisions in such amount which remains after offsetting the amounts which may be recovered from reinsurers. Forecasts should be made in order to determine absolute amounts for losses reported to the Group as of the reporting date, and incurred but not reported losses and claims. Determining final losses definitely can take a significant period of time. The primary method adopted by the management to estimate incurred but not reported losses and claims is to use past loss development trends to determine future loss development trends (“Actuarial Chain Ladder Method”). In each reporting period, loss estimates pertaining to past years are reevaluated in terms of sufficiency, and necessary changes are reflected to the reserves. In addition, the Group reevaluates reported losses and claims on a file basis as of each reporting period. Outstanding losses and claims reserves are not discounted. Unearned losses and claims reserve is shown under “other liabilities and provisions" in the attached consolidated balance-sheet.

Recourse, salvage and similar incomes: After the Group pays for a claim, it obtains a release (a bank receipt showing that the payment has been made) from the insured, and assesses its recourse receivables.

3. Key accounting policies *(continued)*

(r) Insurance contracts (*continued*)

Deferred production costs and deferred commission incomes: Commissions which are paid to agents for the production of insurance policies and renewal of existing policies and which vary accordingly, and other production-related expenses are capitalized as deferred production cost.

Deferred production costs are amortized using the straight-line depreciation method throughout the term of the policy. Deferred production costs are shown within other assets in the attached consolidated balance-sheet.

Commissions obtained in return for premiums assigned to reinsurers are also deferred and are amortized throughout the policy term using the straight-line depreciation method. Deferred commission income is shown under "other liabilities and provisions" in the attached consolidated balance-sheet.

(s) Earnings per share

Earnings per share calculated over continuing operations shown in the attached consolidated comprehensive income statement have been calculated by dividing net profit for the period by the number of average weighted number of shares within the period.

(t) Events after the balance sheet date

Events after the balance sheet which provide information about the Group's position at the reporting date (events requiring adjustment) are reflected in the consolidated financial statements. Important events which occur after the reporting date and do not require adjustment are stated in the footnotes.

(u) Segment reporting

An operating segment is a component that engages in business activities from which the Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components, whose operating results are reviewed regularly by the Board of Directors (as the decision maker), and whose performance can be measured, and for which discrete financial information is available.

(v) New standards and interpretations not currently applied

New standards, changes in standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in the preparation of the consolidated financial statements relating to this period. Standards that may be related to the Group are specified below. The Group does not plan to apply these standards early.

IFRS 9 Financial Instruments

IFRS 9 which was published in July 2014 will replace the guideline in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes a new credit loss model for the calculation of impairment in financial assets, new requirements of general hedge accounting and an updated guide related to classification and measurement of financial instruments. Applications related to the recognition and derecognition of financial instruments contained in IAS 39 are also transferred to the new IFRS 9 standard. IFRS 9 shall apply to annual reporting periods beginning on and after January 1, 2018, and earlier application is permitted. The Group is considering the effects of the standard on its consolidated financial condition and performance.

3. Key accounting policies *(continued)*

(v) *New standards and interpretations not currently applied* (*continued*)

Clarification of exercisable depreciation and amortization methods (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 "Tangible Assets" standard and IAS 38 "Intangible Assets" standard clarify that the use of a depreciation and amortization method which is based on revenue is not appropriate because a revenue derived from an operation which involves the use of an asset generally reflects factors other than the consumption of the economic benefits of an asset. These amendments are effective for and apply prospectively to accounting periods beginning on and after January 1, 2016. Earlier application of the standard is permitted. The amendment is not expected to have a significant effect on the Group's consolidated financial condition or performance.

Recognition of acquisitions of interests in joint operations (Amendments to IFRS 11)

The amendments to this standard clarify whether the IFRS 3 "Business Combinations" standard shall apply to acquisition of an interest in a joint operation if it constitutes the formation of a business as defined in that Standard. The amendments clarify that business combination accounting apply for the acquisition of interests in joint operations which constitute a business in that scope. These amendments are effective for and apply prospectively to accounting periods beginning on and after January 1, 2016. Earlier application of the standard is permitted. The amendments are not expected to have a significant effect on the Group's consolidated financial condition or performance.

IFRS 14 Regulatory Deferral Accounts

The International Accounting Standards Board ("IASB") started a comprehensive project on Rate Regulated Activities in 2012. As part of the project, IASB published a standard with a limited scope in order to find a temporary solution for rate regulated entities that would apply IFRS for the first time. This standard permits entities adopting IFRS to continue to use generally recognized accounting principles for rate regulated activities until transition to IFRS is completed. This Standard applies to annual reporting periods beginning on or after January 1, 2016 and earlier application is permitted. The amendment is not expected to have a significant effect on the Group's consolidated financial condition or performance.

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

These amendments address the conflict between the consolidation and equity accounting practices in effect. The amendments require that all the revenue is recognized if the transferred assets fall within the "business" definition in IFRS 3 "Business Combinations". These amendments are effective for and apply prospectively to accounting periods beginning on and after January 1, 2016. Earlier application of the standard is permitted. The amendment is not expected to have a significant effect on the Group's consolidated financial condition or performance.

3. Key accounting policies *(continued)*

(v) *New standards and interpretations not currently applied* (*continued*)

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

These amendments permit the use of equity method in separate financial statements not only for associates and joint ventures but also for subsidiaries. These amendments are effective for the accounting periods beginning on and after January 1, 2016, and shall apply retrospectively. Earlier application of the standard is permitted. The amendments are not expected to have a significant effect on the Group's consolidated financial condition or performance.

Disclosure initiative (Amendments to IAS 1)

This limited amendment clarifies the requirements presented in IAS 1 rather than substantially modifying IAS 1 Presentation of Financial Statements. Amendments answer excessively normative interpretations of the expressions in IAS 1. Amendments clarify the following issues: materiality, ranking of footnotes, subtotals, accounting standards and disclosures. These amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application of the amendments is permitted. The amendment is not expected to have a significant effect on the Group's consolidated financial condition or performance.

Annual improvements - 2014-2012 Cycle

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

The amendment clarifies the requirements of IFRS 5 in cases when entities change the method of disposal of assets (or group of assets) and such assets do not meet the criteria for assets held-for-distribution.

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7 has been amended to clarify those situations where a servicing contract is covered by the scope of disclosures stipulated by this standard where the entity's interest in a transferred financial asset continues and such assets are left outside the balance-sheet. IFRS 7 has also been amended to clarify additional disclosure requirements brought by *Disclosures: Offsetting Financial Assets and Liabilities (Amendments to IFRS 7)*.

IAS 19 "Employee Benefits"

IAS 19 has been amended to clarify that high-quality private sector bonds or government bonds used in the determination of the discount rate has to be denominated in the same currency as that in which the benefits are payable.

IAS 34 "Interim Financial Reporting"

IAS 34 has been amended to clarify where certain disclosures are not included in interim financial statements, such disclosures can be presented "elsewhere in interim financial report". For example, such information can be disclosed elsewhere in the financial report (management comments or risk reports) by referring to interim financial reports.

4. Financial risk management

(a) Introduction and general information

This note provides information about the risks that the Group is exposed to, the policies and procedures adopted by the Group to manage and measure each of these risks listed below, and the objectives and capital management policies of the Group. The Group is exposed to the following risks resulting from use of the financial instruments:

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

Risk management structure

The creation and supervision of a risk management structure is the responsibility of the Board of Directors. The Board of Directors monitors the efficiency of the risk management system via its Member Responsible for Internal Systems. For this reason, the Bank's Risk Management Unit executes risk management activities which function independently of administrative activities, and reports to the Board of Directors.

The Group's risk management policies have been created to define the Group's potential risks, to determine risk limits and controls, and to track compliance with the limits determined. Risk management policies and systems are regularly reviewed to reflect the changes in the market conditions and the products and services offered.

Risks are measured according to local and international regulations, and internationally recognized methods which are suitable for the Bank's structure, policies and procedures.

(b) Credit risk

Credit risk is defined as the possibility of failure of a borrower or counterparty to fulfill its obligations partially or wholly in accordance with the contractual terms agreed upon. Credit risk does not only cover counterparty risks arising from loans and notes payable, but also credit risks arising from all transactions that are deemed as credits in the Banking Code of TRNC in a comprehensive manner.

Credit risk management

The Risk Management unit manages credit risk by:

- Determining credit risk policies in coordination with other units of the Bank;
- Determining and tracking concentration limits on a sectoral, geographical and loan type basis;
- Presenting credit risk management reports that include loan portfolio distribution (borrower, sector, geographical region), credit quality (non-performing loans, credit risk degrees and concentrations as well as scenario analysis, stress tests and other analysis to the Board of Directors and senior management.
- Performing studies to create advance credit risk measurement methods.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(b) Credit Risk *(continued)*

Credit risk exposure

	Loans and advances to customers			Other assets exposed to credit risk (including financial assets other than loans and advances to customers)		
	31.12.2015	**31.12.2014**	**31.12.2013**	**31.12.2015**	**31.12.2014**	**31.12.2013**
Individually impaired loans	3,772,154	3,030,291	2,685,609	58,741	18,077	18,149
Special provisions set aside for individually impaired loans	(3,336,844)	(2,796,421)	(2,612,256)	(58,741)	(18,077)	(18,149)
Book value	**435,310**	**233,870**	**73,353**	**--**	**--**	**--**
Overdue but not impaired loans	43,221	110,018	28,037	--	--	--
Restructured loans	--	--	--	--	--	--
Book value	**43,221**	**110,018**	**28,037**	--	--	--
Performing loans	680,145,336	572,007,527	524,696,726	--	--	--
Restructured loans	2,754,441	2,953,897	1,572,100	--	--	--
Book value	**682,899,777**	**574,961,424**	**526,268,826**			
Collective impairment	(435,310)	(233,870)	(73,353)	--	--	--
Total book value	**682,942,998**	**575,071,442**	**526,296,863**	**--**	--	**--**

There is no provision for impairment set aside by the Group for loans and advances to banks and investment securities as of December 31, 2015, December 31, 2014 and December 31, 2013.

Sectoral distribution of loans and advances to customers

	31.12.2015		**31.12.2014**		**31.12.2013**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Consumer loans	281,140,292	41.17	191,116,948	33.23	159,881,843	30.38
Home loans	*10,231,593*	*1.5*	*11,439,987*	*1.99*	*12,258,949*	*2.33*
Consumer loans	*267,517,492*	*39.17*	*175,616,171*	*30.54*	*143,761,286*	*27.32*
Overdraft account	*2,919,292*	*0.43*	*3,461,344*	*0.6*	*3,206,924*	*0.61*
Vehicle loans	*471,915*	*0.07*	*599,446*	*0.1*	*654,684*	*0.12*
Production	25,601,064	3.75	1,254,246	0.22	2,473,078	0.47
Wholesale and retail trading	16,518,837	2.42	32,117,721	5.58	21,207,805	4.03
Transportation and communication	23,719,848	3.47	18,669,250	3.25	29,366,713	5.58
Construction	6,794,028	0.99	6,837,466	1.19	6,747,663	1.28
Credit cards	3,770,036	0.55	3,889,013	0.68	3,802,266	0.72
Hotel, food, beverage services	27,034,202	3.96	22,272,401	3.87	20,938,526	3.98
Financial institutions	230,939,470	33.82	251,207,422	43.68	241,387,026	45.87
Agriculture and animal husbandry	520,689	0.08	983,484	0.17	635,678	0.12
Health and social services	83,006	0.01	514,820	0.09	619,397	0.12
Other	66,821,526	9.78	46,208,671	8.04	39,236,868	7.45
Total loans and advances to customers	**682,942,998**	**100.00**	**575,071,442**	**100.00**	**526,296,863**	**100.00**

4. Financial risk management (*continued*)

(b) Credit Risk *(continued)*

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group may face the risk not to collect all principal and interest payments under the conditions set forth in the loan agreements. These loans have been rated from 3 to 5 in the Group's internal credit rating system.

Overdue but not impaired loans

Overdue but not impaired loans are loans and receivables whose principal and interest payment is overdue, but for which the Group believes it is not appropriate to set aside a provision, considering the guarantees and sureties held by it and the collections made in the past relating to such receivables.

Restructured loans

Restructured loans are loans that are restructured due to temporary deterioration in the financial condition of the borrower and upon which the Group and the borrower have reached an agreement.

Special provisions set aside for impaired loans and receivables

The Group sets aside special provisions for estimated losses which the Group may face due to individually impaired loans and receivables within its own loan portfolio.

Derecognition policy

Consolidated subsidiaries derecognize a loan receivable (and if any, special provisions set aside for that loan) after forming an opinion that the receivables related to that loan are not collectible after completing all legal procedures and determining the absolute loss. In forming that opinion, attention is paid to the fact that substantial changes have occurred in the borrower's financial condition preventing the borrower to fulfill its obligation or that the collateral taken is not enough to cover all the risks exposed. The Bank does not have a policy relating to derecognition of loans.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(b) Credit Risk *(continued)*

The following table shows gross and net (net of impairment) amounts of impaired assets according to risk ratings.

	Loans and advances to customers		Other assets	
31.12.2015	**Gross**	**Net**	**Gross (*)**	**Net (*)**
3. Group: Impaired	73,066	--	--	--
4. Group: Impaired	136,955	--	405	--
5. Group: Impaired	3,562,133	435,310	58,336	--
Total	**3,772,154**	**435,310**	**58,741**	**--**

	Loans and advances to customers		Other assets	
31.12.2014	**Gross**	**Net**	**Gross (*)**	**Net (*)**
3. Group: Impaired	376,818	--	--	--
4. Group: Impaired	132,919	--	--	--
5. Group: Impaired	2,520,554	233,870	18,077	--
Total	**3,030,291**	**233,870**	**18,077**	**--**

	Loans and advances to customers		Other assets	
31.12.2013	**Gross**	**Net**	**Gross (*)**	**Net (*)**
3. Group: Impaired	200,338	--	--	--
4. Group: Impaired	48,477	--	--	--
5. Group: Impaired	2,436,794	73,353	18,149	--
Total	**2,685,609**	**73,353**	**18,149**	**--**

(*) In the above table, receivables from impaired insurance activities are shown in "Group 4" and "Group 5".

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(b) Credit Risk *(continued)*

Collateral policy

The collaterals held by the Group for loans disbursed to its customers consist of mortgages on property, other bonds and guarantees on assets. Estimated fair values of collaterals taken depend on the value of the relevant asset during disbursement of the loan, and generally, a further evaluation is not performed until the loan is individually subject to impairment.

The distribution of cash loans and advances and non-cash loans to customers according to the collaterals held by the Group is as follows:

Cash loans	**31.12.2015**	**31.12.2014**	**31.12.2013**
Secured loans:	597,911,871	450,937,542	321,419,038
Real estate secured loans	*199,786,386*	*127,636,306*	*106,577,726*
Deposit secured loans	*176,380,615*	*126,951,513*	*109,208,537*
Other collaterals (pledges on assets, corporate and personal guarantees, bonds)	*163,703,115*	*151,253,712*	*74,703,541*
Guarantees issued by financial institutions	*40,195,497*	*26,447,745*	*19,975,783*
Cash secured loans	*17,846,258*	*18,648,266*	*10,953,451*
Unsecured loans	85,031,127	124,133,900	204,877,825
Total loans and advances to customers	**682,942,998**	**575,071,442**	**526,296,863**

Non-cash loans	**31.12.2015**	**31.12.2014**	**31.12.2013**
Secured loans:	18,579,732	27,445,578	54,997,088
Guarantees issued by financial institutions	*7,714,832*	*19,647,592*	*51,352,478*
Cash secured loans	*5,746,975*	*3,442,225*	*263,386*
Other collaterals (pledges on assets, corporate and personal guarantees, bonds)	*3,006,904*	*2,155,903*	*1,978,521*
Real estate secured loans	*2,111,021*	*2,199,858*	*1,402,703*
Unsecured loans	136,856	23,994	19,266
Total non-cash loans	**18,716,588**	**27,469,572**	**55,016,354**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(b) Credit Risk *(continued)*

Sectoral and regional concentration of impaired loans and receivables

The Bank and its subsidiaries monitor credit risk concentration on a sectoral and regional basis. An analysis of the sectoral and regional concentration of impaired loans and receivables, financial leasing and factoring receivables is presented below.

	31.12.2015		**31.12.2014**		**31.12.2013**	
Sectoral concentration	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Consumer loans	2,911,412	76.00	2,368,175	77.69	2,474,474	91.52
Service sector	24,138	0.63	43,216	1.42	40,947	1.52
Agriculture and animal husbandry	20,093	0.52	20,385	0.67	21,593	0.80
Durable consumer goods	16,861	0.44	16,830	0.55	16,830	0.62
Construction	6,532	0.17	6,731	0.22	7,131	0.26
Food	3,161	0.08	3,161	0.1	3,161	0.12
Other	848,697	22.16	589,869	19.35	139,622	5.16
Total impaired loans and receivables	**3,830,894**	**100.00**	**3,048,367**	**100.00**	**2,703,758**	**100.00**

	31.12.2015		**31.12.2014**		**31.12.2013**	
Regional concentration	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
TRNC	2,710,294	70.75	2,199,239	72.14	1,760,648	65.12
United Kingdom	1,120,600	29.25	849,128	27.86	943,110	34.88
Total impaired loans and receivables	**3,830,894**	**100.00**	**3,048,367**	**100.00**	**2,703,758**	**100.00**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

Offsetting financial assets and liabilities

The following tables contain explanations regarding the following financial assets and financial liabilities:

- Offset in the balance-sheet of the Group; or
- Covering financial instruments which are subject to applicable general netting agreements or similar agreements, whether the instrument has been offset or not in the balance-sheet.

Similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. If financial instruments such as loans and deposits have not been offset in the balance-sheets, they are not shown in the following tables.
The Group takes and gives cash collaterals for derivatives transactions.
Financial assets and liabilities are subject to netting, applicable master netting arrangements and similar agreements.

					Amounts not offset in the balance-sheet		
	Types of Financial Assets	**Gross amounts of financial assets**	**Gross amounts of financial liabilities recognized on a net basis in the balance-sheet**	**Net amounts of financial assets presented in the balance-sheet**	**Financial instruments (including non-cash collateral)**	**Cash collaterals received**	**Amount**
31.12.2015	Derivatives - Derivative financial assets held-for-trading	392,329	--	392,329	--	392,329	--
31.12.2014	Derivatives - Derivative financial assets held-for-trading	477,383	--	477,383	--	477,383	--
31.12.2013	Derivatives - Derivative financial assets held-for-trading	2,463,553	--	2,463,553	--	2,463,553	--

					Amounts not offset in the balance-sheet		
	Types of Financial Liabilities	**Gross amounts of financial assets**	**Gross amounts of financial liabilities recognized on a net basis in the balance-sheet**	**Net amounts of financial assets presented in the balance-sheet**	**Financial instruments (including non-cash collateral)**	**Cash collaterals given**	**Amount**
31.12.2015	Derivatives - Derivative financial liabilities held-for-trading	1,568,828	--	1,568,828	--	1,568,828	--
31.12.2014	Derivatives - Derivative financial liabilities held-for-trading	1,610,805	--	1,610,805	--	1,610,805	--
31.12.2013	Derivatives - Derivative financial liabilities held-for-trading	4,293	--	4,293	--	4,293	--

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(c) Liquidity risk

Liquidity risk is the likelihood that the Group experiences difficulty in meeting its obligations arising from its financial debts.

Liquidity risk management

The Group's approach to liquidity risk management is to have sufficient liquidity to fulfill its obligations in a timely manner without causing unacceptable losses and damaging the Group's reputation both under normal and stressful conditions.

The Bank's Treasury Unit obtains information from other units about the liquidity profile of financial assets and liabilities held by such units, and details of estimated cash flows likely to arise from future transactions. In the light of this information, the Treasury Unit creates a short-term liquid asset portfolio mainly comprised of short-term investment securities, inter-bank money market overnight receivables, short-term investments in domestic and foreign banks in order to make sure that the Group has sufficient liquidity as a whole. Liquidity needs that occur in the units due to short-term fluctuations are satisfied by short-term loans obtained from the Treasury Units, and their long-term structural liquidity requirements are satisfied by long term funding.

The daily liquidity position is monitored, and liquidity stress tests are performed regularly using different scenarios to cover both normal and extraordinary market conditions. All liquidity procedures are subject to supervision and approval of the Asset-Liabilities Committee ("ALCO"). Daily reports include the Bank's liquidity condition.

Liquidity risk exposure

Breakdown of monetary assets and liabilities according to remaining maturities:

31.12.2015	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Book value
Cash and cash equivalents	160,082,155	353,682,295	5,085,599	--	--	--	518,850,049
Financial assets reflected at fair value through profit or loss	--	--	--	392,329	--	--	392,329
Loans and advances to banks	--	--	--	14,573,785	--	--	14,573,785
Loans and advances to customers	36,393,991	110,161,267	48,035,399	104,080,719	322,233,059	62,038,563	682,942,998
Investment securities	42,836	24,539,793	3,875,104	26,351,106	65,669,014	23,577,181	144,055,034
Other assets	56,534,283	2,185,081	2,186,553	4,528,730	--	--	65,434,647
Total assets	**253,053,265**	**490,568,436**	**59,182,655**	**149,926,669**	**387,902,073**	**85,615,744**	**1,426,248,842**
Derivative financial liabilities held-for-trading	--	155,160	--	1,413,668	--	--	**1,568,828**
Bank deposits	247,836	37,057,984	--	--	--	--	**37,305,820**
Customer deposits	369,390,822	474,734,215	214,320,565	117,040,223	18,321,810	--	**1,193,807,635**
Funds derived from repurchasing agreements (Repo transactions)	--	31,709,180	--	--	--	--	**31,709,180**
Subordinated loans	--	--	--	--	14,565,000	--	**14,565,000**
Taxes payable	--	--	1,849,277	1,172,320	--	--	**3,021,597**
Other liabilities and provisions	11,268,458	3,024,802	525,837	418,335	--	--	**15,237,432**
Total liabilities	**380,907,116**	**546,681,341**	**216,695,679**	**120,044,546**	**32,886,810**	**--**	**1,297,215,492**
Net	**(127,853,851)**	**(56,112,905)**	**(157,513,024)**	**29,882,123**	**355,015,263**	**85,615,744**	**129,033,350**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(c) Liquidity risk (*continued*)

31.12.2014	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Book value
Cash and cash equivalents	142,702,951	233,449,550	4,753,624	--	--	--	**380,906,125**
Financial assets reflected at fair value through profit or loss	151,116	--	--	326,267	--	--	**477,383**
Loans and advances to banks	--	11,704,294	--	20,449	--	--	**11,724,743**
Loans and advances to customers	40,608,792	94,320,773	50,083,031	17,843,566	306,744,405	65,470,875	**575,071,442**
Investment securities	9,063,653	21,999,236	7,418,031	30,729,196	68,077,462	32,099,809	**169,387,387**
Other assets	49,934,302	1,991,424	791,861	696,660	--	--	**53,414,247**
Total assets	**242,460,814**	**363,465,277**	**63,046,547**	**49,616,138**	**374,821,867**	**97,570,684**	**1,190,981,327**
Derivative financial liabilities held-for-trading	--	--	--	1,610,805	--	--	**1,610,805**
Bank deposits	148,198	19,664,714	1,960,910	--	--	--	**21,773,822**
Customer deposits	190,281,018	404,982,381	284,161,944	104,253,536	11,675,510	--	**995,354,389**
Funds derived from repurchasing agreements (Repo transactions)	--	38,537,462	2,000,000	--	--	--	**40,537,462**
Subordinated loans	--	--	--	--	--	11,575,000	11,575,000
Taxes payable	--	--	1,693,549	990,757	--	--	2,684,306
Other liabilities and provisions	6,631,605	3,191,569	430,217	435,299	--	--	**10,688,690**
Total liabilities	**197,060,821**	**466,376,126**	**290,246,620**	**107,290,397**	**11,675,510**	**11,575,000**	**1,084,224,474**
Net	**45,399,993**	**(102,910,849)**	**(227,200,073)**	**(57,674,259)**	**363,146,357**	**85,995,684**	**106,756,853**

31.12.2013	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Book value
Cash and cash equivalents	133,459,723	198,822,165	3,248,490	--	--	--	**335,530,378**
Financial assets reflected at fair value through profit or loss	1,187,620	--	--	1,275,933	--	--	**2,463,553**
Loans and advances to banks	--	10,702,552	--	3,852	4,956,677	--	**15,663,081**
Loans and advances to customers	43,080,557	103,331,107	81,991,274	34,378,778	210,536,640	52,978,507	**526,296,863**
Investment securities	6,689,520	75,440	24,650,801	16,424,111	77,860,749	54,868,439	**180,569,060**
Other assets	50,692,591	1,933,772	2,940,217	644,600	--	--	**56,211,180**
Total assets	**235,110,011**	**314,865,036**	**112,830,782**	**52,727,274**	**293,354,066**	**107,846,946**	**1,116,734,115**
Derivative financial liabilities held-for-trading	--	--	--	4,293	--	--	**4,293**
Bank deposits	109,029	27,992,902	--	--	--	--	**28,101,931**
Customer deposits	160,996,294	535,715,186	105,507,495	107,780,412	16,843,246	--	**926,842,633**
Funds derived from repurchasing agreements (Repo transactions)	--	43,117,672	3,000,000	--	--	--	**46,117,672**
Subordinated loans	--	--	--	--	--	--	--
Taxes payable	--	--	1,485,535	1,013,764	--	--	**2,499,299**
Other liabilities and provisions	7,594,880	1,759,665	256,172	423,678	--	1,627,738	**11,662,133**
Total liabilities	**168,700,203**	**608,585,425**	**110,249,202**	**109,222,147**	**16,843,246**	**1,627,738**	**1,015,227,961**
Net	**66,409,808**	**(293,720,389)**	**2,581,580**	**(56,494,873)**	**276,510,820**	**106,219,208**	**101,506,154**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(c) Liquidity risk (*continued*)

Distribution of contractual financial liabilities by remaining maturity

31.12.2015	Book value	Gross nominal amounts	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above
Derivative financial liabilities held-for-trading	1,568,828	1,568,828	--	155,160	--	1,413,668	--	--
Bank deposits	37,305,820	37,305,820	247,836	37,057,984	--	--	--	--
Customer deposits	1,193,807,635	1,208,610,661	369,390,822	489,537,241	214,320,565	117,040,223	18,321,810	--
Funds from repo transactions	31,709,180	31,709,180	--	31,709,180	--	--	--	--
Subordinated liabilities	14,565,000	14,565,000	--	--	--	--	14,565,000	--
Total	**1,278,956,463**	**1,293,759,489**	**369,638,658**	**558,459,565**	**214,320,565**	**118,453,891**	**32,886,810**	**--**
Non-cash loans	**18,716,588**	**18,716,588**	**573,496**	**494,578**	**560,757**	**9,647,956**	**6,197,583**	**1,242,218**

31.12.2014	Book value	Gross nominal amounts	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above
Derivative financial liabilities held-for-trading	1,610,805	1,610,805	--	--	1,610,805	--	--	--
Bank deposits	21,773,822	21,773,822	148,198	21,625,624	--	--	--	--
Customer deposits	995,354,389	1,009,629,055	474,734,215	196,736,234	43,083,938	278,231,422	16,843,246	--
Funds from repo transactions	40,537,462	40,537,462	--	38,537,462	2,000,000	--	--	--
Subordinated liabilities	11,575,000	11,575,000	--	--	--	--	11,575,000	--
Total	**1,070,851,478**	**1,085,126,144**	**474,882,413**	**256,899,320**	**46,694,743**	**278,231,422**	**28,418,246**	**--**
Non-cash loans	**27,469,572**	**27,469,572**	**552,205**	**393,046**	**18,425,342**	**3,287,966**	**4,390,712**	**420,301**

31.12.2013	Book value	Gross nominal amounts	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above
Derivative financial liabilities held-for-trading	4,293	4,293	--	--	--	4,293	--	--
Bank deposits	28,101,931	28,101,931	109,029	27,992,902	--	--	--	--
Customer deposits	926,842,633	1,263,872,758	535,715,186	498,026,419	105,507,495	107,780,412	16,843,246	--
Funds from repo transactions	46,117,672	46,117,672	--	43,117,672	3,000,000	--	--	--
Subordinated liabilities	--	--	--	--	--	--	--	--
Total	**1,001,066,529**	**1,338,096,654**	**535,824,215**	**569,136,993**	**108,507,495**	**107,784,705**	**16,843,246**	**--**
Non-cash loans	**55,016,354**	**55,016,354**	**502,292**	**17,095,911**	**17,608,671**	**18,325,128**	**1,084,352**	**400,000**

The table above shows undiscounted cash outflows according to potential nearest contract maturity of the Group's financial liabilities. The expected cash flows of the Group from these liabilities may significantly change according to this analysis.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(d) Market risk

Market risk is the possibility that changes in market prices such as interest rates, stock prices, exchange rates and credit spreads affect the Group's income or the value of the financial instrument held by it. The purpose of market risk management is to control market risk amount within acceptable parameters by optimizing risk profitability.

Market risk management

The Group separately monitors market risks that trading and non-trading portfolios are exposed to. Trading portfolios are mainly held by the Treasury Unit, and include also positions that occur as a result of market making activity.

Below are the highest, lowest and average values of amounts exposed to market risks as of December 31, 2015 and December 31, 2014, which are calculated in accordance with the non-consolidated financial statements prepared for TRNC Central Bank reporting purposes in the framework of the Directive on Procedures and Principles Regarding Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette dated 9 August 2007 and number 144.

	31.12.2015			31.12.2014		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	2,066,000	2,236,000	1,901,000	2,386,000	3,173,000	1,871,000
Stock risk	747,000	1,151,000	--	916,000	1,098,000	804,000
Exchange risk	263,000	300,000	238,000	354,000	1,350,000	178,000
Option risk	--	--	--	--	--	--
Counterparty risk	371,566,000	387,298,000	358,311,000	289,621,000	359,636,000	273,076,000
Market risk exposure	**4,683,025,000**	**4,887,312,500**	**4,505,625,000**	**3,665,962,500**	**4,565,712,500**	**3,449,112,500**

Interest rate risk exposure – non-trading portfolios

The primary risk which non-trading portfolios are exposed to is fluctuation in future cash flows as a result of changes in market risk rates, and loss due to reduction in the fair value of financial assets. Interest rate risk management is conducted by monitoring interest rate interval and determining pre-approved limits for re-pricing time bands. The monitoring of these limits is undertaken by ALCO and supported by Risk Management. The interest rate position for the Group's non-trading portfolios is as follows:

31.12.2015	**Up to 1 month**	**1-3 month**	**3-12 month**	**1-5 years**	**5 years and above**	**Non Interest Bearing**	**Book value**
Cash and cash equivalents	495,877,732	5,085,599	--	--	--	17,886,718	518,850,049
Loans and advances to banks	--	--	14,573,785	--	--	--	14,573,785
Loans and advances to customers	292,947,923	336,019,773	47,842,172	5,012,530	--	1,120,600	682,942,998
Investment securities	83,635,298	21,912,857	35,395,323	2,021,390	1,047,330	42,836	144,055,034
Other assets	53,506,427	--	--	--	--	151,598,476	205,104,903
Total assets	**925,967,380**	**363,018,229**	**97,811,280**	**7,033,920**	**1,047,330**	**170,648,630**	**1,565,526,769**
Derivative financial liabilities held-for-trading	155,160	--	1,413,668	--	--	--	1,568,828
Bank deposits	12,000,000	25,057,984	--	--	--	247,836	37,305,820
Customer deposits	875,386,344	146,894,925	117,040,223	18,321,810	--	36,164,333	1,193,807,635
Funds from repo transactions	31,709,180	--	--	--	--	--	31,709,180
Subordinated loans	--	--	14,565,000	--	--	--	14,565,000
Corporation tax payable	--	1,849,277	1,172,320	--	--	--	3,021,597
Other liabilities and provisions	--	--	--	--	--	172,179,187	172,179,187
Total liabilities	**919,250,684**	**173,802,186**	**134,191,211**	**18,321,810**	**--**	**208,591,356**	**1,454,157,247**
Net	**6,716,696**	**189,216,043**	**(36,379,931)**	**(11,287,890)**	**1,047,330**	**(37,942,726)**	**111,369,522**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(d) Market risk

31.12.2014	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non Interest Bearing	Book value
Cash and cash equivalents	358,632,253	4,753,624	--	--	--	17,520,248	380,906,125
Loans and advances to banks	11,724,743	--	--	--	--	--	11,724,743
Loans and advances to customers	302,931,745	188,178,046	17,715,275	64,638,070	2,457,434	(849,128)	575,071,442
Investment securities	78,134,793	31,789,742	45,516,957	4,882,242	--	9,063,653	169,387,387
Other assets	43,933,533	--	--	--	--	77,361,919	121,295,452
Total assets	**795,357,067**	**224,721,412**	**63,232,232**	**69,520,312**	**2,457,434**	**103,096,692**	**1,258,385,149**
Derivative financial liabilities held-for-trading	--	--	--	1,610,805	--	--	1,610,805
Bank deposits	21,625,624	--	--	--	--	148,198	21,773,822
Customer deposits	716,168,664	133,654,006	104,253,536	11,675,510	--	29,602,673	995,354,389
Funds from repo transactions	38,537,462	2,000,000	--	--	--	--	40,537,462
Subordinated loans	--	--	11,575,000	--	--	--	11,575,000
Corporation tax payable	--	1,892,746	791,560	--	--	--	2,684,306
Other liabilities and provisions	--	--		--	--	97,468,448	97,468,448
Total liabilities	**776,331,750**	**137,546,752**	**116,620,096**	**13,286,315**	**--**	**127,219,319**	**1,171,004,232**
Net	**19,025,317**	**87,174,660**	**(53,387,864)**	**56,233,997**	**2,457,434**	**(24,122,627)**	**87,380,917**

31.12.2013	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non Interest Bearing	Book value
Cash and cash equivalents	316,165,105	3,248,490	--	--	--	16,116,783	335,530,378
Loans and advances to banks	15,663,081	--	--	--	--	--	15,663,081
Loans and advances to customers	260,207,967	195,503,159	14,561,510	52,559,171	4,408,166	(943,110)	526,296,863
Investment securities	61,188,378	54,368,913	46,432,077	7,852,264	4,037,908	6,689,520	180,569,060
Other assets	29,912,488	--	--	--	--	88,612,450	118,524,938
Total assets	**683,137,019**	**253,120,562**	**60,993,587**	**60,411,435**	**8,446,074**	**110,475,643**	**1,176,584,320**
Derivative financial liabilities held-for-trading	--	--	--	4,293	--	--	4,293
Bank deposits	27,992,902	--	--	--	--	109,029	28,101,931
Customer deposits	668,435,144	105,507,495	107,780,412	16,843,246	--	28,276,336	926,842,633
Funds from repo transactions	43,117,672	3,000,000	--	--	--	--	46,117,672
Subordinated loans	--	--	--	--	--	--	--
Corporation tax payable	--	1,702,895	796,404	--	--	--	2,499,299
Other liabilities and provisions	--	--	--	--	--	88,195,060	88,195,060
Total liabilities	**739,545,718**	**110,210,390**	**108,576,816**	**16,847,539**	**--**	**116,580,425**	**1,091,760,888**
Net	**(56,408,699)**	**142,910,172**	**(47,583,229)**	**43,563,896**	**8,446,074**	**(6,104,782)**	**84,823,432**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Interest rate risk measurement frequency

The economic value differences arising from interest rate fluctuations as of December 31, 2015, December 31, 2014 and December 31, 2013 pursuant to the Regulation regarding measurement and evaluation of interest rate risk arising from banking accounts by the standard shock method are presented in the following table:

Currency – 31.12.2015	Applied Shock (+/- Base Points)	Gains/ Losses	Gains/Equities- Losses /Equities
Turkish Lira	500	1,016,399	%1.51
	(400)	(813,119)	(%1.21)
USD	200	1,392,190	%2.07
	(200)	(1,392,190)	(%2.07)
British Pound	200	(3,536,722)	(%5.25)
	(200)	3,536,722	%5.25
Euro	200	1,861,110	%2.76
	(200)	(1,861,110)	(%2.76)
Total for Negative Shocks	**--**	**732,977**	**%1.09**
Total for Positive Shocks	**--**	**(529,697)**	**(%0.79)**

Currency – 31.12.2014	Applied Shock (+/- Base Points)	Gains/ Losses	Gains/Equities- Losses /Equities
Turkish Lira	500	1,243,615	%1.93
	(400)	(994,892)	(%1.55)
USD	200	1,918,409	%2.98
	(200)	(1,918,409)	(%2.98)
British Pound	200	(2,782,887)	(%4.33)
	(200)	2,782,887	%4.33
Euro	200	523,812	%0.81
	(200)	(523,812)	(%0.81)
Total for Negative Shocks	**--**	**902,949**	**%1.40**
Total for Positive Shocks	**--**	**(654,226)**	**(%1.02)**

Currency – 31.12.2013	Applied Shock (+/- Base Points)	Gains/ Losses	Gains/Equities- Losses /Equities
Turkish Lira	500	1,173,639	%2.43
	(400)	(938,911)	(%1.95)
USD	200	1,467,987	%3.04
	(200)	(1,467,987)	(%3.04)
British Pound	200	(2,162,689)	(%4.48)
	(200)	2,162,689	%4.48
Euro	200	28,953	%0.06
	(200)	(28,953)	(%0.06)
Total for Negative Shocks	**--**	**507,890**	**%1.05**
Total for Positive Shocks	**--**	**(273,162)**	**(%0.57)**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Exchange risk

The Group is exposed to exchange risk due to transactions in foreign currencies its investments in its foreign operations.

Exchange risk management

The risk policy has been built on transactions within the limits, and it is essential to keep the foreign currency position in balance.

For evaluation of the following table, figures represent TRY equivalent of the relevant foreign currency.

31.12.2015	**USD**	**Euro**	**British Pound**	**Other currencies**	**Total**
Cash and cash equivalents	70,781,110	114,978,187	101,496,647	83,671	287,339,615
Financial assets reflected at fair value through profit or loss	--	392,329	--	--	392,329
Loans and advances to banks	14,533,320	--	--	--	14,533,320
Loans and advances to customers	133,197,940	76,502,007	61,689,369	--	271,389,316
Investment securities	37,062,786	29,501,880	13,899,000	--	80,463,666
Other assets	119,204,692	62,747,151	93,082,578	--	275,034,421
Total monetary assets in foreign currencies	**374,779,848**	**284,121,554**	**270,167,594**	**83,671**	**929,152,667**
Bank deposits	8,598,551	3,311,045	114,927	--	12,024,523
Customer deposits	150,773,238	105,650,036	351,648,918	17,860	608,090,052
Subordinated loans	14,565,000	--	--	--	14,565,000
Other liabilities	1,943,495	1,956,639	68,956,020	834	72,856,988
Total monetary liabilities in foreign currencies	**175,880,284**	**110,917,720**	**420,719,865**	**18,694**	**707,536,563**
Net on-balance sheet position	**198,899,564**	**173,203,834**	**(150,552,271)**	**64,977**	**221,616,104**
Net off-balance sheet position	**(60,138,444)**	**(98,301,895)**	**150,419,000**	**--**	**(8,021,339)**
Net position	**138,761,120**	**74,901,939**	**(133,271)**	**64,977**	**213,594,765**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Exchange risk management

31.12.2014	**USD**	**Euro**	**British Pound**	**Other currencies**	**Total**
Cash and cash equivalents	98,765,686	45,501,786	86,490,524	73,846	230,831,842
Financial assets reflected at fair value through profit or loss	--	326,267	--	--	326,267
Loans and advances to banks	11,704,294	--	--	--	11,704,294
Loans and advances to customers	84,448,033	77,880,059	38,568,976	--	200,897,068
Investment securities	31,147,390	--	32,697,188	--	63,844,578
Other assets	5,248,752	5,205,652	23,187,403	--	33,641,807
Total monetary assets in foreign currencies	**231,314,155**	**128,913,764**	**180,944,091**	**73,846**	**541,245,856**
Bank deposits	4,741,428	1,563,652	77,884	--	6,382,964
Customer deposits	125,901,656	87,684,685	293,962,139	12,536	507,561,016
Subordinated loans	11,575,000	--	--	--	11,575,000
Other liabilities and provisions	1,867,775	1,384,814	3,914,603	387	7,167,579
Total monetary liabilities in foreign currencies	**144,085,859**	**90,633,151**	**297,954,626**	**12,923**	**532,686,559**
Net on-balance sheet position	**87,228,296**	**38,280,613**	**(117,010,535)**	**60,923**	**8,559,297**
Net off-balance sheet position	**(87,582,094)**	**(25,447,394)**	**117,294,800**	**--**	**4,265,312**
Net position	**(353,798)**	**12,833,219**	**284,265**	**60,923**	**12,824,609**

31.12.2013	**USD**	**Euro**	**British Pound**	**Other currencies**	**Total**
Cash and cash equivalents	75,477,772	29,464,582	112,088,559	83,817,401	300,848,314
Financial assets reflected at fair value through profit or loss	1,268,503	7,431	--	--	1,275,934
Loans and advances to banks	15,659,229	--	--	--	15,659,229
Loans and advances to customers	83,733,599	73,131,543	43,144,803	157,778,810	357,788,755
Investment securities	56,637,691	--	11,470,575	--	68,108,266
Other assets	6,550,877	5,050,792	22,375,177	27,231,428	61,208,274
Total monetary assets in foreign currencies	**239,327,671**	**107,654,348**	**189,079,114**	**268,827,639**	**804,888,772**
Bank deposits	14,094,459	4,962,083	30,348	8,990,982	28,077,872
Customer deposits	131,434,442	92,870,698	271,855,226	237,407,643	733,568,009
Other liabilities and provisions	1,935,615	1,070,801	4,677,829	2,446,916	10,131,161
Total monetary liabilities in foreign currencies	**147,464,516**	**98,903,582**	**276,563,403**	**248,845,541**	**771,777,042**
Net on-balance sheet position	**91,863,155**	**8,750,766**	**(87,484,289)**	**19,982,098**	**33,111,730**
Net off-balance sheet position	**(75,410,673)**	**2,926,332**	**88,028,857**	**--**	**15,544,515**
Net position	**16,452,482**	**11,677,098**	**544,568**	**19,982,098**	**48,656,245**

In order to make the above table comparable, TRY equivalents of the relevant currencies have been shown.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Exchange risk exposure

The following table shows the effect which a depreciation of 10 percent in TRY against the following currencies will make on the consolidated comprehensive income statement and profit/loss (except tax effect) for the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

	31.12.2015		31.12.2014		31.12.2013	
	Profit / Loss	Total comprehensive income statement	Profit / Loss	Total comprehensive income statement	Profit / Loss	Total comprehensive income statement
USD	(13,876,112)	(13,876,112)	35,380	35,380	(1,645,248)	(1,645,248)
Euro	(7,490,194)	(7,490,194)	(1,283,322)	(1,283,322)	(1,167,710)	(1,167,710)
British Pound	13,327	13,327	(28,427)	(28,427)	(54,457)	(54,457)
Other currencies	(6,498)	(6,498)	(6,092)	(6,092)	(1,998,210)	(1,998,210)
Total, net	**(21,359,477)**	**(21,359,477)**	**(1,282,461)**	**(1,282,461)**	**(4,865,625)**	**(4,865,625)**

The following table shows the effect which an appreciation of 10 percent in TRY against the following currencies will make on the consolidated comprehensive income statement and profit/loss (except tax effect) for the years ended December 31, 2015, December 31, 2014 and December 31, 2013.

	31.12.2015		31.12.2014		31.12.2013	
	Profit / Loss	Total comprehensive income statement	Profit / Loss	Total comprehensive income statement	Profit / Loss	Total comprehensiv e income statement
USD	13,876,112	13,876,112	(35,380)	(35,380)	1,645,248	1,645,248
Euro	7,490,194	7,490,194	1,283,322	1,283,322	1,167,710	1,167,710
British Pound	(13,327)	(13,327)	28,427	28,427	54,457	54,457
Other currencies	6,498	6,498	6,092	6,092	1,998,210	1,998,210
Total, net	**21,359,477**	**21,359,477**	**1,282,461**	**1,282,461**	**4,865,625**	**4,865,625**

In this analysis, it is assumed that all other variables, in particular interest rates, remain fixed.

Fair value indication

The estimated fair values of financial instruments are determined using current market information and appropriate valuation methodologies where applicable. When determining estimated fair values of financial instruments, it is necessary to interpret market data. When determining estimated fair values of financial instruments, the management uses the available market data, however, considers that such market data might not reflect the fair value, taking the present conditions into consideration.

The Bank management estimates that the fair values of financial assets and liabilities other than loans and advances to customers and held-to-maturity financial assets and that are measured at amortized cost are not significantly different than their carrying values. These financial assets and liabilities include loan and advances to banks, funds derived from repo transactions, bank deposits and other contractual short-term assets and liabilities. The Bank management believes that the carrying values of these financial assets and liabilities approximately reflect their fair values taking into account the time to re-pricing particularly in a manner to reflect market conditions.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

The fair value measurement classifications of financial assets and liabilities measured at fair value are as follows:

31.12.2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets reflected at fair value through profit / loss:				
Derivative financial assets held-for-trading	--	*392,329*	--	*392,329*
Financial assets held-for-investment purposes				
Debt securities	*8,441,980*	*18,655,624*	--	*27,097,604*
Total financial assets	**8,441,980**	**19,047,953**	**--**	**27,489,933**
Financial liabilities held-for-trading				
Derivative financial liabilities held-for-trading	--	*1,568,976*	--	*1,568,976*
Total financial liabilities	--	**1,568,976**	--	**1,568,976**

31.12.2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets reflected at fair value through profit / loss:				
Derivative financial assets held-for-trading	--	*477,383*	--	*477,383*
Financial assets held-for-investment purposes				
Debt securities	*26,041,589*	*34,570,175*	--	*60,611,764*
Total financial assets	**26,041,589**	**35,047,558**	**--**	**61,089,147**
Financial liabilities held-for-trading				
Derivative financial liabilities held-for-trading	--	1,610,805	--	1,610,805
Total financial liabilities	**--**	**1,610,805**	**--**	**1,610,805**

31.12.2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets reflected at fair value through profit / loss:				
Derivative financial assets held-for-trading	--	*2,463,553*	--	*2,463,553*
Financial assets held-for-investment purposes				
Debt securities	*29,340,750*	*19,515,554*	--	*48,856,304*
Total financial assets	**29,340,750**	**21,979,107**	**--**	**51,319,857**
Financial liabilities held-for-trading				
Derivative financial liabilities held-for-trading	--	*4,293*	--	*4,293*
Total financial liabilities	--	**4,293**	--	**4,293**

4. Financial risk management (*continued*)

(e) Operational risk

Operational risk is the risk of exposure to direct or indirect loss due to the Bank's processes, employees, technology and infrastructure and external factors such as legal and regulatory requirements and generally accepted corporate approaches (except credit, market and liquidity risk). Operational risks arise from all operations of the Bank, and all entities are exposed to such risks.

The Bank's operational risk elements are determined in accordance with the operational risk definition by evaluating all processes, products and units. Control areas are created for the operational risks that the Bank is exposed to, and all operational risks are included in the relevant control areas and monitored. In this context, an appropriate monitoring method has been developed, defining all operational risks and control frequencies.

The Group has used the "Basic Indicator Method" in the calculation of operational risk. In accordance with the Directive on Procedures and Principles regarding Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette dated 7 January 2014 and numbered 5, Section 4 "Calculation of Operational Risk Exposure", operational risk exposure is calculated using the basic indicator method as fifteen percent of the year-end gross income averaged over the previous three years, multiplied by twelve and a half in line with the practice in the national legislation. Operational risk exposure was calculated as 12.5 times operational risk exposure and was shown as TRY 56,663,000 (December 31, 2014: TRY 53,300,000, December 31, 2013: TRY 49,900,000).

The Central Bank of TRNC ("TRNCCB"), the regulatory organization in the banking sector, determines and inspects capital adequacy requirements that the Bank has to satisfy. In satisfying capital requirements, The Central Bank of TRNC requires that the ratio of capital to total risk weighted assets should be minimum 12%. In the framework of the regulations of The Central Bank of TRNC, the Bank's financial statements are taken into account in the calculation of capital adequacy ratios.

The consolidated equities of the Bank and its financial subsidiaries are analyzed in two categories:

- Tier I capital consists of the sum of goodwill, paid-in capital after deducting prepaid expenses and some other costs, legal reserves, statutory reserves, profit reserves, extraordinary reserves, retained earnings, foreign currency translation differences, non-controlling interests.
- Tier II capital consists of general loan reserves, revaluation fund, available-for-sale financial assets, associates and subsidiaries valuation differences, subordinated loans and free provisions set aside.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

4. Financial risk management (*continued*)

(f) Capital management – regulatory capital adequacy

Banking operations are classified as commercial transactions or banking transactions. It has been determined to reflect various levels of risks which the Bank may face due to risk weighted assets and off-balance sheet liabilities. Capital requirement for operational risk and market risk as of December 31, 2015, December 31, 2014 and December 31, 2013 has been calculated using the Basic Indicator Approach, and included in capital adequacy calculations.

The Bank's policy is to create a strong capital base to build trust in investors, lenders and the market in order to achieve the targeted growth.

It has been observed that the Bank its operations which are individually subject to separate regulations have complied with necessary capital requirements in the current and the previous years.

The Bank's regulatory capital positions as of December 31, 2015, December 31, 2014 and December 31, 2013 are as follows:

	31.12.2015	**31.12.2014**	**31.12.2013**
Tier-I capital	82,125,881	78,214,252	73,854,969
Tier-II capital	82,078,545	16,473,076	4,292,472
Deductions from the capital	(96,785,848)	(30,365,259)	(29,915,976)
Total equity	**67,418,578**	**64,322,069**	**48,231,465**
Risk weighted assets	368,838,000	359,636,000	302,099,000
Market risk exposure	28,313,000	39,900,000	49,375,000
Operational risk	56,663,000	53,300,000	49,900,000
Capital ratios			
The ratio of total equity to the sum of risk weighted assets, market risk exposure and operational risk exposure	14.86	14.20	12.02
The ratio of Tier-I capital to the sum of risk weighted assets, market risk exposure and operational risk exposure	18.10	17.27	18.40

5. Insurance risk management

In an insurance contract, risk is the possibility of the insured event to occur and uncertainty of the amount of loss subject to it. Due to the nature of the insurance contracts, this risk is possible and unpredictable.

In insurance contracts in which the possibility theory is used in pricing and setting aside provisions, the fundamental risk that the Group is subject to is the possibility that losses and the rights and benefits offered to policyholders occur in excess of the technical provisions set aside for insurance contracts as shown in the financial statements. This occurs when the incurred losses and the paid amounts are higher than what is estimated in terms of frequency and size. Events that are subject to insurance are incidental, and the number of losses incurred and the amount of benefits to policyholders may differ year to year from the estimates made using statistical methods.

Experience has shown that the variability of the expected result decreases as the number of similar insurance contracts increase. Moreover, a portfolio with a high variability will be affected from changes in each sub-portfolio.

5. Insurance risk management (*continued*)

Pricing policies

The Group's pricing principles and policies are as follows:

i) When determining risk premiums, the amount of expected loss is taken into account and premium limits are determined accordingly.

ii) In pricing activities which are part of the new product development process, the Group's relevant units are allowed to work in coordination taking into account customer requirements and the competitive conditions in the market.

iii) The aim is to maintain profitability and continuity on a product basis.

The results of pricing efforts are compared against competitors and international examples.

Risk management

The Group manages insurance risk by managing policy writing limits, approval procedures for new products and limit excesses, pricing, product design and reinsurance policies.

The Group's policy writing strategy aims diversity in order to maintain a balance portfolio, and depends on creating wide portfolios consisting of similar risks in order to reduce variability of the expected result. All non-life insurances are inherently annual, and policyholders are entitled to deny renewal or change contract terms at the renewal stage.

Insurance risk concentration

Subject to the Group's liabilities, the size of concentration of an insurance risk that determines the dimension of a certain event or series of events that might significantly affect the Group constitutes the mainline of the insurance risk that the Group is faced with. These concentrations may arise from a single contract or a series of contracts which may give rise to occurrence of significant liabilities. Another important issue related to concentration of insurance risk is that the risk may arise from a combination of risks in a series of different insurance classes.

The concentration of insurance risk may arise from events which rarely occur, but make a high impact such as natural disasters; the unexpected changes in the Group's trends such as mortality rate, behavioral changes in policyholders; or exposure to a high loss caused by an important legal process or legal risks.

The Group believes that there is no significant risk concentration based on social groups, profession, age or similar criteria in non-life insurances.

The highest possibility that may give rise to a substantial damage for the Group arise from natural disasters like floods, storms and earthquakes. The Group follows the following methods and assumptions to calculate such risks:

- Measuring geographical concentrations;
- Measuring maximum amount of potential loss;
- Excess of loss reinsurance agreements.

5. Insurance risk management (*continued*)

Reinsurance

The Group assigns part of its insurance risks to reinsurance companies by executing reinsurance agreements in order to control its risk exposure and protect its capital resources.

Reinsurance companies that offer reinsurance services for life insurance and other risks are important service providers for the Group's insurance subsidiaries. The following criteria are determinant in relationships with reinsurers:

i) Financial soundness
ii) A long-term approach in business relationships
iii) Competitive prices
iv) Capacity provided for optional and non-proportional (catastrophic) reinsurance agreements
v) Capabilities provided to the Company for the risk measurement process, product development, trainings and new developments in the sector

Performances of reinsurance companies are evaluated every year in respect of treaties, taking into account criteria such as whether the reinsurer's share in insurance claims and the balances arising from reinsurance transactions owed to the Group's insurance partners have been paid on time and in full as well as the capacity supplied to the Group in optional works, the speed in operational reinsurance transactions and technical knowledge and market information transferred to the Group.

6. Segment Reporting

Operating segments

The Group has six reportable operating segments which are defined below and each of which is a strategic business unit. These strategic business units offer different products and services, and are managed separately according to the Group's management and internal reporting structure. The Board of Directors examines internal management reports of each strategic business unit minimum on a quarterly basis. Below is a summary of the activities of each reportable segment of the Group:

Retail banking

It covers loans to retail customers, deposits collected from such customers and other transactions and balances with these customers.

Corporate and commercial banking

It covers loans to corporate customers, deposits collected from such customers and other transactions and balances with these customers.

Investment banking

It covers the Group's trading activities and corporate financing activities.

This segment assumes the Group's funding and central risk management activities through liquid asset investments such as loans obtained, issuance of debt securities and short-term investments, government bonds, and private bonds.

Insurance

It covers the Group's insurance activities.

6. Segment reporting (*continued*)

Other

It covers information about operating segments that do not meet any of the quantitative lower limits.

The operating results for each reporting segment are presented below. Segment performances are measured based on pre-tax profits of segments included in management reports that are reviewed by the Board of Directors. As the Management believes that profits of the relevant segments are the most appropriate information for performing an evaluation by comparing certain segments against other entities operating in the same sectors, segment profits are used as the performance measurement criterion. Inter-segmental pricing is performed on an arm's length basis.

The measurement of assets and liabilities and operating results of the segments is performed according to the accounting policies described in the notes to accounting policies.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

6. Segment reporting (*continued*)

Information about operating segments

31.12.2015	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total	Eliminations	Total
Interests from loans and receivables	11,129,099	5,894,838	21,236,527	38,260,464	--	14,384,934	52,645,398	--	52,645,398
Interests on deposits	(17,627,756)	(6,004,007)	(2,060,903)	(25,692,666)	--	--	(25,692,666)	21,709	(25,670,957)
Operating profit									
Profit before tax	7,846,563	10,888,612	(11,800,933)	6,934,242	1,216,457	--	8,150,699	--	8,150,699
Income tax provisions	67,071	(1,655,242)	(780,500)	(2,368,671)	(85,004)	479,494	(1,974,181)	--	(1,974,181)
Net profit for the period	**7,913,634**	**9,233,370**	**(12,581,433)**	**4,565,571**	**1,131,453**	**479,494**	**6,176,518**	**--**	**6,176,518**

31.12.2015	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total	Eliminations	Total
Segment assets	223,335,425	99,522,417	1,237,408,857	1,560,266,699	9,854,538	--	1,570,121,237	(123,449,881)	1,446,671,356
Total assets	**223,335,425**	**99,522,417**	**1,237,408,857**	**1,560,266,699**	**9,854,538**	**--**	**1,570,121,237**	**(123,449,881)**	**1,446,671,356**
Segment liabilities	954,332,477	145,453,768	273,044,482	1,395,921,319	1,129,724	3,571,201	1,400,622,244	(105,161,214)	1,295,461,030
Equities including non-controlling interests	--	--	180,665,929	180,665,929	8,724,814	3,198,842	192,589,585	(18,288,667)	174,300,918
Total liabilities and equity	**954,332,477**	**145,453,768**	**453,710,411**	**1,553,496,656**	**9,854,538**	**6,770,043**	**1,570,121,237**	**(123,449,881)**	**1,446,671,356**

31.12.2015	TRNC	Turkey	Europe	Other	Total	Eliminations	Total
Total Assets	356,903,557	678,847,850	534,369,830	--	1,570,121,237	(123,449,881)	1,446,671,356
Total liabilities	671,422,448	244,983,160	374,875,970	7,628,000	1,298,909,578	(3,448,548)	1,295,461,030
Total equity	95,347,109	110,788,550	65,076,000	--	271,211,659	(120,001,333)	151,210,326
Total liabilities and equity	**766,769,557**	**355,771,710**	**439,951,970**	**7,628,000**	**1,570,121,237**	**(123,449,881)**	**1,446,671,356**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

6. Segment reporting (*continued*)

Information about operating segments (*continued*)

31.12.2014	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total	Eliminations	Total
Interests from loans and receivables	9,666,351	5,508,206	25,114,386	40,288,943	--	644,396	40,933,339	--	40,933,339
Interests on deposits	(18,030,040)	(3,935,926)	(1,768,505)	(23,734,471)	--	--	(23,734,471)	33,496	(23,700,975)
Operating profit									
Profit before tax	4,801,611	5,356,205	(2,724,283)	7,433,533	884,870	--	8,318,403	--	8,318,403
Income tax provisions	115,398	(921,327)	(1,159,072)	(1,965,001)	(207,357)	--	(2,172,358)	--	(2,172,358)
Net profit for the period	**4,917,009**	**4,434,878**	**(3,883,355)**	**5,468,532**	**677,513**	**--**	**6,146,045**	**--**	6,146,045

31.12.2014									
Segment assets	175,929,363	68,312,713	1,010,514,749	1,254,756,825	8,640,416	536,762	1,263,934,003	(53,838,484)	1,210,095,519
Total assets	**175,929,363**	**68,312,713**	**1,010,514,749**	**1,254,756,825**	**8,640,416**	**536,762**	**1,263,934,003**	**(53,838,484)**	**1,210,095,519**
Segment liabilities	752,166,371	161,826,037	186,928,123	1,100,920,531	1,047,894	--	1,101,968,425	(19,589,446)	1,082,378,979
Equities including non-controlling interests	--	--	150,274,889	150,274,889	7,592,522	4,098,167	161,965,578	(34,249,038)	127,716,540
Total liabilities and equity	**752,166,371**	**161,826,037**	**337,203,012**	**1,251,195,420**	**8,640,416**	**4,098,167**	**1,263,934,003**	**(53,838,484)**	**1,210,095,519**

31.12.2014	TRNC	Turkey	Europe	Other	Total	Eliminations	Total
Total Assets	314,861,617	503,926,110	445,146,276	--	1,263,934,003	(53,838,484)	1,210,095,519
Total liabilities	589,332,399	226,078,790	269,218,016	1,952,000	1,086,581,205	(4,202,226)	1,082,378,979
Total equity	90,245,218	87,107,580	--	--	177,352,798	(49,636,258)	127,716,540
Total liabilities and equity	**679,577,617**	**313,186,370**	**269,218,016**	**1,952,000**	**1,263,934,003**	**(53,838,484)**	**1,210,095,519**

7. Cash and cash equivalents

Details of cash and cash equivalents specified in the consolidated balance-sheet and consolidated cash flow statement as of December 31, 2015, December 31, 2014 and December 31, 2013 are as follows:

	31.12.2015	31.12.2014	31.12.2013
Cash	10,635,352	10,271,201	10,064,783
Central Bank deposits other than required reserves	140,587,328	125,333,413	115,740,843
Loans and advances to banks with an original maturity shorter than three months	249,677,951	186,794,433	133,954,596
Inter-bank money market investments	117,949,418	58,507,078	75,770,156
Total cash and cash equivalents included in the consolidated balance-sheet	**518,850,049**	**380,906,125**	**335,530,378**
Accruals on cash and cash equivalents	(133,785)	(97,395)	(128,982)
Restricted bank deposits(*)	(280,768)	(257,414)	(246,268)
Total cash and cash equivalents included in the consolidated cash flow statement	**518,435,496**	**380,551,316**	**335,155,128**

(*) The amount of restricted bank deposits which Türk Sigorta Ltd. holds at the Ministry of Finance of TRNC due to its insurance obligations is TRY 280,768 (December 31, 2014: TRY 257.414, December 31, 2013: TRY 246.268).

8. Central Bank required reserves

Pursuant to the decision of TRNCCB dated 30 January 2014 and 872 and article 23 of the Central Bank Law of TRNC, the Banks operating in TRNC constitute legal reserves for their liabilities in Turkish Lira and foreign currencies at the rate of 8% for deposits with a maturity up to 3 months, 7% for deposits with a maturity up to 6 months (6^{th} month included), 6% for deposits with a maturity up to 1 year (1 year included), 5% for deposits with a maturity longer than 1 year, and 8% for other liabilities expect deposits.

In the calculation of legal reserves for the year 2013, a single rate, i.e. 8%, was used for foreign currency obligations, and after the amendment of legislation which was made by TRNCCB pursuant to the Decree No. 872, legal reserve rates which varied by maturity were established for foreign currency obligations. The interest rate applied by TRNCCB for legal reserve holdings is 3% for Turkish Lira, 0% for USD, 0.25% for GBP and 0.50% for EURO.

	31.12.2015	31.12.2014	31.12.2013
TRY	16,509,306	15,573,459	16,551,344
British Pound	26,965,101	22,726,852	21,932,089
Euro	5,461,543	4,600,754	3,872,778
USD	4,570,477	2,941,977	4,041,038
Total	**53,506,427**	**45,843,042**	**46,397,249**

9. Financial assets reflected at fair value through profit or loss

Financial assets reflected at fair value through profit / loss as of December 31, 2015, December 31, 2014 and December 31, 2013 are as follows:

	31.12.2015	31.12.2014	31.12.2013
Derivative Financial Assets Held-For-Trading	392,329	477,383	2,463,553
Total financial assets reflected at fair value through profit or loss	**392,329**	**477,383**	**2,463,553**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

9. Financial assets reflected at fair value through profit or loss (*continued*)

Derivative financial instruments held-for-trading

Gains and losses derived from derivative financial instruments and changes in the fair value of financial instruments held-for-trading are accounted for under the net capital market transaction profits account in the attached consolidated comprehensive income statement. The net capital market transaction profits for the reporting period ended December 31, 2015 is TRY 643,757 (December 31, 2014: TRY 945,100).

A derivative financial instrument is a financial agreement executed between two parties where the payments are contingent upon the price of one or more factors such as the price of the financial instrument, benchmark interest rates, commodity prices or index. The ordinary activities of the Group include various transactions comprising derivative financial instruments. Among the derivative financial instruments used by the group are forward foreign exchange buying and selling transactions and currency swaps.

The below table shows the distribution of nominal amounts of derivative financial instruments by maturity. The nominal amount of a derivative instrument is the amount of the asset which is subject to the derivative transaction, of the benchmark interest or of the index, and constitutes a basis for the measurement of changes in the value of the derivative transaction. The nominal amounts of derivative instruments show the volume of transactions which exist as of the end of the period or year, and do not in any way reflect credit risk or market risk.

Fair values of derivative financial instruments are calculated using the forward rates at the report date. If reliable forward rates cannot be established due to fluctuations in the market, current market rates are taken into account as best estimates in the determination of the present value of forward rates. The maturity analysis of gross nominal values of derivatives is presented below:

	31.12.2015					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**5 Years and Above**	**Total**
Currency swaps:						
Purchase	101,586,010	55,875,000	--	--	--	157,461,010
Sale	102,068,774	56,413,424	--	--	--	158,482,198
Total purchase	**101,586,010**	**55,875,000**	**--**	**--**	**--**	**157,461,010**
Total sale	**102,068,774**	**56,413,424**	**--**	**--**	**--**	**158,482,198**
Total	**203,654,784**	**112,288,424**	**--**	**--**	**--**	**315,943,208**

	31.12.2014					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**5 Years and Above**	**Total**
Currency swaps:						
Purchase	95,706,800	21,588,000	--	--	--	117,294,800
Sale	97,051,732	21,527,606	--	--	--	118,579,338
Total purchase	**95,706,800**	**21,588,000**	**--**	**--**	**--**	**117,294,800**
Total sale	**97,051,732**	**21,527,606**	**--**	**--**	**--**	**118,579,338**
Total	**192,758,532**	**43,115,606**	**--**	**--**	**--**	**235,874,138**

	31.12.2013					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**5 Years and Above**	**Total**
Currency swaps:						
Purchase	55,543,957	32,484,900	--	--	--	88,028,857
Sale	54,669,698	32,086,718	--	--	--	86,756,416
Total purchase	**55,543,957**	**32,484,900**	**--**	**--**	**--**	**88,028,857**
Total sale	**54,669,698**	**32,086,718**	**--**	**--**	**--**	**86,756,416**
Total	**110,213,655**	**64,571,618**	**--**	**--**	**--**	**174,785,273**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

10. Funds from repo transactions

The Group raises funds through repurchase agreements by repurchasing financial assets that it holds and selling them at a pre-determined interest. Repo transactions are generally used in the short-term financing of interest bearing assets. Financial assets that are subject to repo transactions are as follows:

	31.12.2015		31.12.2014		31.12.2013	
	Fair value of the asset	Funds from repo transactions	Fair value of the asset	Funds from repo transactions	Fair value of the asset	Funds from repo transactions
Funds from repo transactions	31,718,085	31,709,180	40,574,829	40,537,462	46,235,205	46,117,672
Total	**31,718,085**	**31,709,180**	**40,574,829**	**40,537,462**	**46,235,205**	**46,117,672**

Interest accrual amount of funds derived from repo transactions calculated as of December 31, 2015 is TRY 8,905 (December 31, 2014: TRY 37.367, December 31, 2013: TRY 117,533), and is shown among funds derived from repo transactions.

Assets are pledged as security for funds derived from repo agreements, and generally, the carrying values of assets are higher than the carrying values of relevant obligations within margins set between the parties.

11. Loans and advances to banks

Loans and advances to banks consist of balances with a maturity shorter than three moths as of the date of purchase, and the breakdown of such balances is as follows at December 31, 2015, December 31, 2014 and December 31, 2013.

	31.12.2015		
	TRY	Foreign Currency	Total
Domestic banks	40,465	--	40,465
Foreign banks	--	14,533,320	14,533,320
Total	**40,465**	**14,533,320**	**14,573,785**

	31.12.2014		
	TRY	Foreign Currency	Total
Domestic banks	20,449	--	20,449
Foreign banks	--	11,704,294	11,704,294
Total	**20,449**	**11,704,294**	**11,724,743**

	31.12.2013		
	TRY	Foreign Currency	Total
Domestic banks	3,852	--	3,852
Foreign banks	--	15,659,229	15,659,229
Total	**3,852**	**15,659,229**	**15,663,081**

As of December 31, 2015, there are no loans and advances to banks with a maturity longer than three months after the date of purchase (December 31, 2014: None, December 31, 2013: TRY 4,956,677).

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

12. Loans and advances to customers

The details of loans and advances to customers as of December 31, 2015, December 31, 2014, and December 31, 2013 are as follows:

	31.12.2015	31.12.2014	31.12.2013
Commercial loans	510,497,222	410,585,930	366,829,009
Payables to financial institutions	124,400,118	116,198,796	112,135,575
Consumer loans	44,275,622	44,397,703	43,530,013
Credit cards	3,770,036	3,889,013	3,802,266
Total active loans	**682,942,998**	**575,071,442**	**526,296,863**
Impaired loans	3,830,895	3,048,368	2,703,758
Total gross loans	**686,773,893**	**578,119,810**	**529,000,621**
Provision for contingencies set aside for loans and advances to customers	(3,830,895)	(3,048,368)	(2,703,758)
Specific impairment	(3,395,585)	(2,814,498)	(2,630,405)
Collective impairment	(435,310)	(233,870)	(73,353)
Loans and advances to customers, net	**682,942,998**	**575,071,442**	**526,296,863**

Special provisions set aside for contingencies include provisions set aside for loans and advances that are specifically considered to be impaired or non-performing.

The movements of the provision for impairment within the period:

	31.12.2015	31.12.2014	31.12.2013
Amount of provisions for impairment at the beginning of the period	3,048,368	2,703,758	4,293,091
Collections during the period	(989,889)	(704,330)	(1,660,789)
Rate translation differences	(112,118)	(47,208)	(132,719)
Provision for impairment set aside within the period	1,930,571	1,097,974	1,488,995
Provision for impairment, after collections	**3,876,932**	**3,050,194**	**3,988,578**
Loans and advances written off within the year	(46,037)	(1,826)	(1,284,820)
Amount of provisions for impairment at the end of the period	**3,830,895**	**3,048,368**	**2,703,758**

13. Investment securities

Investment securities as of December 31, 2015, December 31, 2014 and December 31, 2013 are as follows:

	31.12.2015	31.12.2014	31.12.2013
Available-for-sale financial assets	27,087,938	60,581,635	48,627,896
Held-to-maturity investments:	116,967,096	108,805,752	131,941,164
Total investment securities	**144,055,034**	**169,387,387**	**180,569,060**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

13. Investment securities (*continued*)

Available-for-sale financial assets:

	31.12.2015	31.12.2014	31.12.2013
Debt securities:			
Bonds issued by TRNC Development Bank	9,014,792	10,879,398	9,755,630
Bills issued by banks	--	1,000,000	--
Private sector bonds	18,073,146	48,702,237	38,872,266
Total available-for-sale financial assets	**27,087,938**	**60,581,635**	**48,627,896**

Held-to-maturity investments:

	31.12.2015	31.12.2014	31.12.2013
Debt securities:			
Government bonds – TRY	78,838,634	70,313,435	71,755,977
Private sector bonds	38,128,462	38,492,317	60,185,187
Total	**116,967,096**	**108,805,752**	**131,941,164**

The movement of held-to-maturity securities within the period:

	31.12.2015	31.12.2014	31.12.2013
Balance at the Beginning of the Period	**108,805,752**	**131,941,164**	**62,336,748**
Purchases within the Period	39,315,000	32,796,300	73,025,435
Amortizations (-)	(41,723,073)	(57,552,002)	(7,162,130)
Exchange Rate Differences	7,300,230	1,162,805	2,980,408
Interest Accruals	3,269,187	457,485	760,703
Total at the End of the Period	**116,967,096**	**108,805,752**	**131,941,164**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

14. Tangible and intangible assets

The movements of tangible and intangible assets between January 1 and December 31, 2015, 2014 and 2013 are as follows:

Tangible assets	01.01.2015	Exch. Rate Translation Differences	Inflows	Outflows	31.12.2015
Cost:					
Buildings and lands	21,568,324	3,731,814	1,855,471	(21,550)	27,134,059
Motor-vehicles	983,579	70,701	101,951	(59,800)	1,096,431
Furniture, office equipment and special costs	15,241,950	1,861,098	654,343	--	17,757,391
Other tangible assets	2,295,671	--	26,400	--	2,322,071
Accumulated depreciation:					
Buildings and lands	10,311,832	2,023,957	1,014,278	--	13,350,067
Motor-vehicles	545,487	28,962	117,742	(47,189)	645,002
Furniture, office equipment and special costs	11,191,510	1,722,823	1,395,952	(12,613)	14,297,672
Other tangible assets	1,683,479	--	200,382	--	1,883,861
Net book value	**16,357,216**				**18,133,350**

Intangible assets	01.01.2015	Exch.Rate Translation Differences	Inflows	Outflows	31.12.2015
Cost:					
Software programs	10,217,957	1,656,798	1,131,535	--	13,006,290
Accumulated amortization:					
Software programs	5,708,477	1,104,532	1,104,027	--	7,917,036
Net book value	**4,509,480**				**5,089,254**

As of December 31, 2015, there is no pledge, lien or other restriction on tangible assets.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

14. Tangible and intangible assets (*continued*)

Tangible assets	01.01.2014	Rate Translation Differences	Inflows	Outflows	31.12.2014
Cost:					
Buildings and lands	24,782,643	(8,290,752)	5,267,472	(191,039)	21,568,324
Motor-vehicles	1,059,741	(166,112)	190,694	(100,744)	983,579
Furniture, office equipment and special costs	21,271,214	(6,374,872)	347,377	(1,769)	15,241,950
Other tangible assets	2,252,937	--	42,734	--	2,295,671
Accumulated depreciation:					
Buildings and lands	14,960,714	(5,340,933)	850,221	(158,170)	10,311,832
Motor-vehicles	694,314	(158,878)	110,795	(100,744)	545,487
Furniture, office equipment and special costs	14,231,691	(4,388,014)	1,348,334	(501)	11,191,510
Other tangible assets	1,474,227		209,252	--	1,683,479
Net book value	**18,005,589**				**16,357,216**

Intangible assets	01.01.2014	Rate Translation Differences	Inflows	Outflows	31.12.2014
Cost:					
Software programs	6,687,492	(72,135)	3,602,600	--	10,217,957
Accumulated amortization:					
Software programs	5,289,710	(48,090)	466,857	--	5,708,477
Net book value	**1,397,782**				**4,509,480**

As of December 31,2014, there is no pledge, lien or other restriction on tangible assets.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

14. Tangible and intangible assets (*continued*)

Tangible assets	**01.01.2013**	**Rate Translation Differences**	**Inflows**	**Outflows**	**31.12.2013**
Cost:					
Buildings and lands	17,039,400	7,743,243	--	--	24,782,643
Motor-vehicles	709,360	155,142	315,692	(120,453)	1,059,741
Furniture, office equipment and special costs	14,787,081	5,835,205	674,501	(25,573)	21,271,214
Other tangible assets	2,120,311	--	132,626	--	2,252,937
Accumulated depreciation:					
Buildings and lands	9,033,947	5,036,861	889,906	--	14,960,714
Motor-vehicles	581,615	137,296	95,128	(119,725)	694,314
Furniture, office equipment and special costs	8,779,626	3,981,570	1,479,724	(9,229)	14,231,691
Other tangible assets	1,276,652	--	197,575	--	1,474,227
Net book value	**14,984,312**				**18,005,589**

Intangible assets	**01.01.2013**	**Rate Translation Differences**	**Inflows**	**Outflows**	**31.12.2013**
Cost:					
Software programs	6,065,069	558,552	63,871	--	6,687,492
Accumulated amortization:					
Software programs	4,564,411	372,368	352,931	--	5,289,710
Net book value	**1,500,658**				**1,397,782**

As of December 31, 2013, there is no pledge, lien or other restriction on tangible assets.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

15. Other assets

The details of other asset accounts as of December 31, 2015, December 31, 2014 and December 31, 2013 are as follows:

	31.12.2015	**31.12.2014**	**31.12.2013**
Deposits and guarantees given	1,961,743	1,575,208	1,458,837
Prepaid expenses	1,846,781	1,513,225	1,500,445
Receivables from insurance operations	710,872	519,521	457,916
Receivables from cheques not yet due	260,856	193,036	779,891
Clearing Account	--	6,196	15,059
Other	4,347,878	1,993,525	1,568,040
Total other assets	**9,128,130**	**5,800,711**	**5,780,188**

16. Financial liabilities held-for-trading

As of December 31, 2015, December 31, 2014 and December 31, 2013, financial liabilities held for trading consist of negative differences relating to derivative financial instruments:

	31.12.2015	**31.12.2014**	**31.12.2013**
Swap transactions	1,568,828	1,610,805	4,293
Total	**1,568,828**	**1,610,805**	**4,293**

17. Bank deposits

The details of the bank deposits as of December 31, 2015, December 31, 2014 and December 31, 2013 are as follows:

	31.12.2015	**31.12.2014**	**31.12.2013**
Demand deposits	247,836	148,198	109,029
Time deposits	37,057,984	21,625,624	27,992,902
Total bank deposits	**37,305,820**	**21,773,822**	**28,101,931**

18. Customer deposits

The details of customer deposits as of December 31, 2015, December 31, 2014, and December 31, 2013 are as follows:

	31.12.2015		
	Demand deposits	**Time deposits**	**Total**
Savings deposits	289,606,209	400,638,979	690,245,188
Foreign exchange deposits	45,231,273	360,909,869	406,141,142
Residents	*41,784,859*	*333,532,326*	*375,317,185*
Non-residents	*3,446,414*	*27,377,543*	*30,823,957*
Commercial institutions deposits	27,747,323	60,525,723	88,273,046
Official institutions deposits	365,772	2,888	368,660
Other	6,440,245	2,339,354	8,779,599
Total customer deposits	**369,390,822**	**824,416,813**	**1,193,807,635**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

18. Customer deposits (*continued)*

	31.12.2014		
	Demand deposit	**Time deposits**	**Total**
Savings deposits	126,497,883	449,967,695	576,465,578
Foreign exchange deposit account	38,036,622	294,080,037	332,116,659
Residents	*35,830,858*	*271,112,295*	*306,943,153*
Non-residents	*2,205,764*	*22,967,742*	*25,173,506*
Commercial institutions deposits	22,895,832	54,108,061	77,003,893
Official institutions deposits	1,332,046	1,392,505	2,724,551
Other	1,518,635	5,525,073	7,043,708
Total customer deposits	**190,281,018**	**805,073,371**	**995,354,389**

	31.12.2013		
	Demand deposit	**Time deposits**	**Total**
Savings deposits	90,055,241	437,691,766	527,747,007
Foreign exchange deposit account	39,767,145	268,761,088	308,528,233
Residents	*37,630,510*	*248,374,845*	*286,005,355*
Non-residents	*2,136,635*	*20,386,243*	*22,522,878*
Commercial institutions deposits	22,263,634	29,168,600	51,432,234
Official institutions deposits	1,687,834	28,777,467	30,465,301
Other	7,222,440	1,447,418	8,669,858
Total customer deposits	**160,996,294**	**765,846,339**	**926,842,633**

19. Subordinated loans

The Group signed a Subordinated Loan agreement on September 10, 2014 with Özyol Holding A.Ş. in the framework of the "Directive on Procedures and Principles Regarding Measurement and Evaluation of the Capital Adequacy of Banks" published on the basis of Article 33 of the Banking Law No. 39/201 ("Directive"). The amount of loan was USD 5,000, 000, annual interest rate was six-month USD Libor +5.25%, and the term of the agreement was 6 years after its signature.

As of December 31, 2015, net carrying value of the subordinated loan is TRY 14,565,000 (December 31, 2014: TRY 11,575,000, December 31, 2013: None).

20. Other liabilities and provisions

The primary items that constitute other obligations and provisions are as follows:

	31.12.2015	**31.12.2014**	**31.12.2013**
Payment Orders	3,205,301	3,603,271	4,685,146
Various payables	1,585,995	811,863	1,382,523
Other liabilities	1,386,058	1,119,026	839,352
Insurance technical provisions	778,545	551,849	478,996
Provision for short term employee benefits	566,586	227,036	432,366
Blocked accounts	391,135	192,122	179,726
Other provisions	3,732,894	878,722	21,622
Total other liabilities and provisions	**11,646,514**	**7,383,889**	**8,019,731**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

20. Other liabilities and provisions (*continued*)

The movements of insurance technical provisions within the year are detailed in the following tables:

Unearned premium reserve	**31.12.2015**	**31.12.2014**	**31.12.2013**
Unearned premium reserve, gross	1,379,802	1,152,490	988,527
Unearned premium reserve, reinsurer's shares	(602,782)	(601,992)	(510,947)
Unearned premium reserve, net	**777,020**	**550,498**	**477,580**

Unearned premium reserve	**31.12.2015**	**31.12.2014**
Opening balance	550,498	477,580
Premiums written during the period	2,573,165	2,198,357
Premiums earned during the period	(2,346,643)	(2,125,439)
Balance at the end of the year	**777,020**	**550,498**

	31.12.2015	**31.12.2014**	**31.12.2013**
Outstanding claims reserve, gross	3,812	3,376	3,540
Outstanding claims reserve, reinsurer's shares	(2,286)	(2,026)	(2,124)
Outstanding claims reserve, net	**1,526**	**1,350**	**1,416**

Outstanding claims reserve	**31.12.2015**	**31.12.2014**
Opening balance	1,350	1,416
Payments during the period	(183,844)	(154,383)
Increases during the period	184,020	154,317
Balance at the end of the year	**1,526**	**1,350**

21. Income taxes

The items that constitute the income tax expense shown in the attached consolidated financial income statement are as follows:

	31.12.2015	**31.12.2014**
Income taxes shown within the net profit for the period		
Corporation tax on net profit for the period	(2,195,616)	(2,003,770)
Deferred tax on net profit for the period	221,435	(168,588)
	(1,974,181)	**(2,172,358)**
Income taxes shown within other comprehensive income		
Corporation tax shown within other comprehensive income	(88,402)	(63,266)
Deferred tax shown within other comprehensive income	(105,969)	(124,543)
	(194,371)	**(187,809)**
Total tax expense shown in the consolidated comprehensive income statement	**(2,168,552)**	**(2,360,167)**

The movements of provision for income tax within the period are detailed in the table below:

	31.12.2015	**31.12.2014**
Opening balance	2,684,306	2,499,299
Income tax expense for the current period	2,195,616	2,067,036
Income tax accounted for under other comprehensive income	88,402	63,266
Prepaid taxes within the period	(1,946,727)	(1,945,295)
Corporation tax payable	**3,021,597**	**2,684,306**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

21. Income taxes (*continued*)

The reconciliation between the provision for income tax calculated at the legal tax rate over the pretax operating profit of the Group shown in its consolidated financial statements and the actual provision for income tax calculated at the Group's effective tax rate have been detailed in the following table as of December 31, 2015 and December 31, 2014.

	31.12.2015	Tax rate (%)	31.12.2014	Tax rate (%)
Net operating profit before tax and non-controlling interests	**8,150,699**		**8,318,403**	
Provision for income tax calculated at the legal tax rate	(1,977,040)	%20.25- %23.5	(1,982,778)	%20.25- %23.5
Other, net	2,859		(189,580)	
Income tax expense	**(1,974,181)**		**(2,172,358)**	

The details of items that result in deferred tax assets and liabilities as of December 31, 2015, December 31, 2014 and December 31, 2013 are as follows:

	31.12.2015	31.12.2014	31.12.2013
Other provisions	(1,325,645)	(486,062)	(755,388)
Valuation differences of financial assets and liabilities	(13,631)	(14,459)	(8,029)
TRNCCB and VUY depreciation difference	--	(17,990)	--
Deferred tax assets	**(1,339,276)**	**(518,511)**	**(763,417)**
Valuation differences of financial assets and liabilities	656,401	274,914	355,138
Other temporary differences	2,210,301	1,489,843	1,538,955
TRNCCB and VUY depreciation difference	309,030	195,070	135,402
Deferred tax liabilities	**3,175,732**	**1,959,827**	**2,029,495**
Deferred tax liabilities, (net)	**1,836,456**	**1,441,136**	**1,266,078**

22. Earnings per share

Earnings per share are calculated by dividing the Group's net profit for the period by the weighted average number of shares in the period.

The Company has no diluted shares as of December 31, 2015 and December 31, 2014.

The following table shows the calculation of earnings per share:

	31.12.2015	31.12.2014
Net profit for the period	6,176,518	6,146,045
Weighted number of shares (100 pieces)	74,018,343	71,018,342
Earnings per 100 shares	0.0834	0.0865

23. Equity

Paid-up capital

As of December 31, 2015, the authorized capital of the Bank is TRY 74,000,000 (December 31, 2014: TRY 71,000,000, December 31, 2013: TRY 65,000,000). As of December 31, 2015, the paid-up capital is TRY 73,534,074 (December 31, 2014: TRY 70,031,964, December 31, 2013: 64,485,657). The shares representing authorized capital consist of 20,380 "New A" shares each worth 10 Kurus, and 73,997,962 "New B" shares each worth TRY 1. "New A" and "New B" shares each have one voting right, and are equal in terms of other rights.

Legal reserves

Banks have to set aside a reserve for contingencies at the rate of 10% of their annual net profits. This requirement continues until the reserve is equal to total paid-up capital. These reserves are only used in the deduction of losses.

Pursuant to the decision taken at the Bank's 114th Ordinary General Assembly Meeting held on April 17, 2015; of a sum of TRY 5,405,564 which was found by adding the profit carried forward from year 2013 to TRY 4,382,703, i.e. net profit for year 2014, TRY 439,000 was transferred to the Legal Reserve Account and TRY 4,966,565 was transferred to Retained Earnings Account. At the Extraordinary General Assembly Meeting held at the same date, it was decided to capitalize TRY 3,501,598 from the Retained Earnings Account and to issue "New B" bonus shares at a rate of 5.00% to shareholders over the nominal values of "New A" and "New B" shares based on the number of shares they held at March 20, 2015.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

23. Equity (*continued*)

Non-controlling interests

The details of non-controlling interests as of December 31, 2015 are as follows:

	31.12.2015	31.12.2014
Capital and other reserves	12,046,483	10,124,569
Retained earnings	5,460,365	4,418,193
Other comprehensive income	781,819	431,790
Total	**18,288,667**	**14,974,552**

Available-for-sale financial assets valuation differences:

	31.12.2015	31.12.2014
Valuation differences at the beginning of the period	(286,115)	(897,496)
Changes in fair value of available-for-sale financial assets	450,931	529,972
The effect of deferred and corporation tax	(105,969)	(124,543)
Valuation differences of available-for-sale financial assets transferred to profit/loss within the period	376,180	269,218
The effect of deferred and corporation tax	(88,402)	(63,266)
Valuation differences at the end of the period	**346,625**	**(286,115)**

24. Related parties

If a party controls another party, or enjoys significant influence on the other party's decisions relating to its activities and operations, then these parties can be called related parties. Shareholders and Group companies are defined as related parties for the purposes of this consolidated financial report. Related parties include also individual shareholders, managers of Group companies, members of the board of directors and their families.

The Group conducts various transactions under commercial conditions with related parties in the scope of its banking activities.

Below are the balances with related parties as of the end of the period and the transactions conducted within the year:

	31.12.2015		
	Cash loans	**Non-cash loans**	**Deposits**
Indirect/direct shareholders	20,652,433	37,208	4,969,794
Senior Management	267,710	--	2,787,904
Total	**20,920,143**	**37,208**	**7,757,698**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

24. Related parties (*continued*)

	31.12.2014		
	Cash loans	**Non-cash loans**	**Deposits**
Indirect/direct shareholders	21,148,103	40,755	5,342,035
Senior Management	240,354	--	2,416,294
Total	**21,388,457**	**40,755**	**7,758,329**

	31.12.2013		
	Cash loans	**Non-cash loans**	**Deposits**
Indirect/direct shareholders	11,149,053	29,601	3,597,713
Senior Management	102,442	--	2,149,211
Total	**11,251,495**	**29,601**	**5,746,924**

	31.12.2015			
	Commission Incomes	**Interest Incomes**	**Interest Expenses**	**Other Operating Expenses**
Indirect/direct shareholders	48,855	250,541	972,963	254,848
Senior Management	3,247	26,773	62,459	--
Total	**52,102**	**277,314**	**1,035,422**	**254,848**

	31.12.2014			
	Commission Incomes	**Interest Incomes**	**Interest Expenses**	**Other Operating Expenses**
Indirect/direct shareholders	7,926	129,583	357,737	201,136
Senior Management	2,574	23,694	48,896	--
Total	**10,500**	**153,277**	**406,633**	**201,136**

	31.12.2013			
	Commission Incomes	**Interest Incomes**	**Interest Expenses**	**Other Operating Expenses**
Indirect/direct shareholders	4,120	108,764	200,292	203,976
Senior Management	1,708	13,137	63,703	--
Total	**5,828**	**121,901**	**263,995**	**203,976**

Transactions

There is no collateral taken from receivables from related parties. There are no impaired receivables from related parties.

Benefits and rights to senior management

Total interests provided to the senior management and board of directors members in the accounting period ended December 31, 2015 amount to TRY 4,004,574 (December 31, 2014: TRY 3,672,476, December 31, 2013: TRY 3,009,775).

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

25. Other income

The other income as of the years ended December 31, 2015 and 2014 are as follows:

	31.12.2015	**31.12.2014**
Earned premiums	1,433,805	921,690
Written premiums, net of reinsurer's share	*1,207,283*	*848,772*
Change in unearned premium reserve	*226,522*	*72,918*
Fees charged to customers for communication expenses	116,429	105,829
Income from sale of fixed assets	17,281	1,181,278
Other	1,859,151	2,665,939
Total	**3,426,666**	**4,874,736**

26. Personnel expenses

The details of personnel expenses during the accounting periods ended December 31, 2015 and 2014 are as follows:

	31.12.2015	**31.12.2014**
Salary and wages	(19,414,678)	(16,707,030)
Social security premiums employer's share	(2,788,921)	(2,571,229)
Other benefits	(1,565,982)	(1,729,420)
Total	**(23,769,581)**	**(21,007,679)**

Average number of employees of the Group within the year:

	31.12.2015	**31.12.2014**
Bank	226	225
Subsidiaries	90	90
Turkish Bank UK Ltd	*81*	*81*
Türk Sigorta Ltd	*9*	*9*
Total	**316**	**315**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

27. Other expenses

The details of other expenses during the accounting periods ended December 31, 2015 and 2014 are as follows:

	31.12.2015	**31.12.2014**
Saving Deposit Insurance Fund premiums	(4,973,142)	(4,384,796)
Computer usage expenses	(2,902,336)	(2,283,089)
Communication Expenses	(1,382,764)	(1,168,297)
Consultancy expenses	(1,330,620)	(891,109)
Lease and operating lease expenses	(1,087,993)	(927,252)
Insurance Expenses	(569,984)	(476,586)
Office material expenses	(499,895)	(457,796)
Advertising expenses	(491,719)	(556,464)
Energy expenses	(465,943)	(528,822)
Maintenance and repair expenses	(397,243)	(381,600)
Vehicles expenses	(192,985)	(220,894)
Hospitality expenses	(132,652)	(120,924)
Cleaning expenses	(105,149)	(105,463)
Losses due to sales of assets	--	(437,622)
Other various administrative expenses	(3,740,162)	(3,576,864)
Total	**(18,272,587)**	**(16,517,578)**

28. Off-balance-sheet liabilities

As of December 31, 2015, December 31, 2014 and December 31, 2013, the Bank and its subsidiaries assume various commitments and contingent liabilities which are summarized below, but are not shown in consolidated financial statements during their ordinary activities:

	31.12.2015	**31.12.2014**	**31.12.2013**
Letters of guarantee	7,771,058	23,878,404	54,779,304
Letters of credit	5,243,400	207,818	--
Total non-cash loans	**13,014,458**	**24,086,222**	**54,779,304**
Credit cards expenditure limit commitments	33,150,994	35,395,282	26,228,097
Loan allocation commitments with disbursement guarantees	141,481,353	121,520,441	78,610,178
Payment commitments for cheques	28,553,500	31,046,250	32,123,000
Other Irrevocable Commitments	487,819,071	486,946,847	458,026,164
Total commitments	**691,004,918**	**674,908,820**	**594,987,439**
Total commitments and non-cash loans	**704,019,376**	**698,995,042**	**649,766,743**

Information about contingent liabilities and assets

As of December 31, 2015, the amount of provisions set aside for litigation due to a dispute with a person is TRY 287,477 (December 31, 2014: TRY 239.987, December 31, 2013: None).

Due to the nature of insurance activities and the nature of the law system which generally favors policyholders, the Group has set aside full reserves for all actions other than actions instituted for non-pecuniary damages and risks that are not covered by insurance policies. Since most of these kinds of important claims are transferred to reinsurance companies through optional agreements, amounts net of reinsurer's share do not have a significant effect on the Group's financial position.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

29. Information about consolidated partnerships

Additional information about consolidated partnerships and shareholding interests as of December 31, 2015 is as follows:

31.12.2015	***Direct shareholding ratio (%)***	***Indirect shareholding ratio (%)***
Subsidiaries		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.16	51.16

31.12.2014	***Direct shareholding ratio (%)***	***Indirect shareholding ratio (%)***
Subsidiaries		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.15	51.15

31.12.2013	***Direct shareholding ratio (%)***	***Indirect shareholding ratio (%)***
Subsidiaries		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.08	51.08

30. Post-reporting events

At the Extraordinary General Assembly Meeting held on April 27, 2016, it has been decided to increase the authorized capital of Türk Bankası Ltd. to TRY 78,000,000.

31. Explanations on transition to IFRS

As explained in Footnote 2 (a), these financial statements are the first financial statements of the Group prepared according to IFRS.

The financial statements prepared as of December 31, 2015 with comparisons of December 31, 2014 and December 31, 2013 have been prepared in accordance with the accounting policies stated in Note 3.

When preparing an opening balance-sheet as per IFRS, the Group has re-arranged its balance-sheets relating to the previous periods which were prepared pursuant to the Banking Law, Companies Law and TRNC Tax Legislation in a manner to satisfy the requirements for IFRS.

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

31. Explanations on transition to IFRS (*continued*)

The following table shows how the transition from old accounting standards to IFRS affected the Group's financial statements.

31.12.2014	Note	Previous accounting principles	Adjustments	Classifications	31.12.2014
ASSETS					
Cash and cash equivalents		380,829,180	--	76,945	380,906,125
Central Bank required reserves		45,843,042			45,843,042
Financial assets reflected at fair value through profit or loss	a	317,957	(89,896)	249,322	477,383
Loans and advances to banks		11,724,743	--	--	11,724,743
Loans and advances to customers		575,071,442	--	--	575,071,442
Financial assets held-for-investment purposes		169,387,387	--	--	169,387,387
Tangible assets	b	35,133,128	(18,775,912)	--	16,357,216
Intangible assets	b	4,431,876	77,604	--	4,509,480
Deferred tax assets		--	--	17,990	17,990
Other assets	f	5,759,431	(133,958)	175,238	5,800,711
TOTAL ASSETS		**1,228,498,186**	**(18,922,162)**	**519,495**	**1,210,095,519**
LIABILITIES AND EQUITY					
Financial liabilities held-for-trading		--	--	1,610,805	1,610,805
Bank deposits	e	21,821,041	(47,219)	--	21,773,822
Customer deposits		996,638,927	--	(1,284,538)	995,354,389
Funds derived from repurchasing agreements ("Repo")		40,537,462	--	--	40,537,462
Subordinated loans		11,575,000	--	--	11,575,000
Other liabilities and provisions	c	13,135,452	(5,751,563)	--	7,383,889
Current tax liabilities		2,684,306	--	--	2,684,306
Deferred tax liabilities:	d	--	1,266,078	193,228	1,459,306
TOTAL LIABILITIES		**1,086,392,188**	**(4,532,704)**	**519,495**	**1,082,378,979**
Capital		70,031,964	--	--	70,031,964
Reserves		32,949,355	--	--	32,949,355
Retained earnings		24,818,533	(14,389,458)	--	10,429,075
Total equity attributable to bank shareholders		**127,799,852**	**(14,389,458)**	**--**	**113,410,394**
Non-controlling interests		**14,306,146**	**--**	**--**	**14,306,146**
Total equity		**142,105,998**	**(14,389,458)**	**--**	**127,716,540**
Total liabilities and equity		**1,228,498,186**	**(18,922,162)**	**519,495**	**1,210,095,519**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

31. Explanations on transition to IFRS (*continued*)

	Note	Previous accounting principles	Adjustments	Classifications	31.12.2014
Interest incomes					
Interests from loans and receivables		40,933,339	--	--	40,933,339
Interests received from securities	a	10,862,630	432,038	--	11,294,668
Interests received from bank deposits		4,373,223	--	--	4,373,223
Other interest incomes		(18,382,985)	--	18,477,087	94,102
Total interest income		**37,786,207**	**432,038**	**18,477,087**	**56,695,332**
Interest expenses					
Interests on deposits	e	(23,693,457)	(7,518)	--	(23,700,975)
Interests given to other money market transactions		(63,013)	--	--	(63,013)
Interests payable to loans used		(198,168)	--	--	(198,168)
Other interest expenses		18,070,516	--	(18,477,087)	(406,571)
Total interest expenses		**(5,884,122)**	**(7,518)**	**(18,477,087)**	**(24,368,727)**
Net interest income		32,326,605	**--**	**--**	32,326,605
Fee and commission income		10,988,457	--	--	10,988,457
Fee and commission expenses		(2,130,401)	--	--	(2,130,401)
Net fee and commission income		**8,858,056**	**--**	**--**	**8,858,056**
Other operating incomes					
Net commercial profit		945,100	--	--	945,100
Net exchange profit		2,290,150	--	--	2,290,150
Other income	f	5,008,694	(133,958)	--	4,874,736
Total other operating income		**8,243,944**	**(133,958)**	**--**	**8,109,986**
Other operating expenses					
				--	
Personnel expenses		(21,007,679)	--	--	(21,007,679)
Provision for impairment of loans and receivables, net	c	(614,555)	221,111	--	(393,444)
Depreciation expenses and amortization	b	(2,687,494)	(253,907)	--	(2,941,401)
Taxes other than income tax		(116,142)	--	--	(116,142)
Other expenses		(16,517,578)	--	--	(16,517,578)
Total other operating expenses		**(40,943,448)**	**(32,796)**	**--**	**(40,976,244)**
Profit before income tax		**(23,841,448)**	**(166,754)**	**--**	**8,318,403**
Income tax expense	d	(2,444,514)	272,156	--	(2,172,358)
Profit for the Period		**(26,285,962)**	**105,402**	**--**	**6,146,045**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

31. Explanations on transition to IFRS (*continued*)

		2014
No	***Retained earnings, Previous accounting principles***	**18,672,488**
a	Adjustment of fair value measurement of financial assets under IFRS 13	(89,896)
b	Calculation of tangible and intangible asset depreciations and adjustment of revaluation differences under IFRS 16 and IFRS 40	(18,698,308)
c	Adjustment of provisions under IFRS 37	5,751,563
d	Adjustments relating to deferred tax under IFRS 12	(1,266,078)
e	Recognition of debts at amortized cost under IFRS 39	47,219
f	Other IFRS adjustments	(133,958)
	Retained earnings, IFRS	**4,283,030**

	Note	Previous accounting principles	Adjustments	Classifications	31.12.2013
ASSETS					
Cash and cash equivalents		335,405,248	--	125,130	335,530,378
Central Bank required reserves		46,397,249	--	--	46,397,249
Financial assets reflected at fair value through profit or loss	a	1,883,708	700,682	(120,837)	2,463,553
Loans and advances to banks		15,663,081	--	--	15,663,081
Loans and advances to customers		526,296,863	--	--	526,296,863
Financial assets held-for-investment purposes		180,569,060	--	--	180,569,060
Tangible assets	b	31,155,020	(13,149,431)	--	18,005,589
Intangible assets	b	1,306,441	91,341	--	1,397,782
Other assets		5,969,526	--	(189,338)	5,780,188
TOTAL ASSETS		**1,144,646,196**	**(12,357,408)**	**(185,045)**	**1,132,103,743**
LIABILITIES AND EQUITY					
Financial liabilities held-for-trading		--	--	4,293	4,293
Bank deposits	e	28,151,721	(49,790)	--	28,101,931
Customer deposits		926,842,633	--	--	926,842,633
Funds derived from repurchasing agreements ("Repo")		46,117,672	--	--	46,117,672
Other liabilities and provisions	c	11,731,714	(3,711,983)	--	8,019,731
Current tax liabilities		2,499,299	--	--	2,499,299
Deferred tax liabilities:	d	--	1,455,416	(189,338)	1,266,078
TOTAL LIABILITIES		**1,015,343,039**	**(2,306,357)**	**(185,045)**	**1,012,851,637**
Capital		64,485,657	--	--	64,485,657
Reserves		28,872,804	--	--	28,872,804
Retained earnings		22,026,662	(10,051,051)	--	11,975,611
Total equity attributable to bank shareholders		**115,385,123**	**(10,051,051)**	**--**	**105,334,072**
Non-controlling interests		**13,918,034**	**--**	**--**	**13,918,034**
Total equity		**129,303,157**	**(10,051,051)**	**--**	**119,252,106**
Total liabilities and equity		**1,144,646,196**	**(12,357,408)**	**(185,045)**	**1,132,103,743**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

31. Explanations on transition to IFRS (*continued*)

		2013
Note	***Retained earnings, Previous accounting principles***	**15,683,486**
a	Adjustment of fair value measurement of financial assets under IFRS 13	700,682
b	Calculation of tangible and intangible asset depreciations and adjustment of revaluation differences under IFRS 16 and IFRS 40	(13,058,090)
c	Adjustment of provisions under IFRS 37	3,711,983
d	Adjustments relating to deferred tax under IFRS 12	(1,455,416)
e	Recognition of debts at amortized cost under IFRS 39	49,790
	Retained earnings, IFRS	**5,632,435**