Yapı ve Kredi Bankası A.Ş.

Interim condensed consolidated financial statements at June 30, 2016 together with independent auditor's review report

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Report on review of interim condensed consolidated financial statements

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Yapı ve Kredi Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2016, comprising of the interim consolidated statement of financial position as at June 30, 2016 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

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

Yaşar Bivas
Partner, SMMM

Istanbul, August 23, 2016

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Interim consolidated statement of financial position at June 30, 2016 and December 31, 2015
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2016	December 31, 2015
Assets			
Cash and balances with central banks	5	28,655,929	27,388,947
Loans and advances to banks		4,139,122	3,397,631
Financial assets held for trading			
- Trading securities	6	129,531	74,239
- Derivative financial instruments	7	1,668,338	1,676,669
Loans and advances to customers	8	171,490,522	162,526,899
Hedging derivatives	7	451,408	961,041
Investment securities			
- Available-for-sale	9	8,659,430	9,788,185
- Available-for-sale pledged as collateral	21	12,280,011	12,914,978
- Held-to-maturity	9	3,427,720	1,317,101
- Held-to-maturity pledged as collateral	21	4,076,789	5,791,708
Investment in associates and joint ventures accounted for using the equity method		573,967	566,076
Goodwill		1,023,528	1,023,528
Other intangible assets		548,495	528,911
Property and equipment		1,292,899	1,281,051
Deferred income tax assets	15	309,521	185,900
Other assets		4,949,299	3,616,218
Total assets		**243,676,509**	**233,039,082**
Liabilities			
Deposits from banks	10	13,022,898	15,385,169
Customer deposits	11	133,325,040	125,055,432
Funds borrowed	12	33,839,364	32,425,022
Debt securities in issue	13	17,117,604	16,697,058
Financial liabilities designated at fair value	14	3,286,247	3,253,119
Derivative financial instruments	7	1,680,935	1,922,408
Current income taxes payable		222,241	195,800
Deferred income tax liabilities	15	3,805	2,970
Hedging derivatives	7	612,390	148,278
Other provisions	16	834,536	713,469
Retirement benefit obligations		720,473	715,637
Other liabilities		14,020,368	12,953,335
Total liabilities		**218,685,901**	**209,467,697**
Equity			
Share capital and share premium		4,822,259	4,822,259
Other reserves	17	761,773	999,508
Retained earnings	17	19,406,110	17,749,148
Equity attributable to equity holders of the parent		**24,990,142**	**23,570,915**
Equity attributable to non-controlling interests		466	470
Total equity		**24,990,608**	**23,571,385**
Total liabilities and equity		**243,676,509**	**233,039,082**

The accompanying notes set out on pages 6 to 45 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of income for the six-month period ended June 30, 2016 and 2015

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2016	June 30, 2015
Continuing operations			
Interest income		9,678,026	7,841,670
Interest expense		(5,981,228)	(4,972,940)
Net interest income		**3,696,798**	**2,868,730**
Fee and commission income		1,870,676	1,619,265
Fee and commission expense		(609,924)	(511,669)
Net fee and commission income		**1,260,752**	**1,107,596**
Foreign exchange gains, net		119,549	41,237
Net trading, hedging and fair value income	18	273,697	61,192
Gains from investment securities, net		52,495	129,033
Other operating income		49,694	162,964
Operating income		**5,452,985**	**4,370,752**
Impairment losses on loans, investment securities and credit related commitments, net	8-16	(947,943)	(838,370)
Provision for retirement benefit obligations, net		(24,189)	28,204
Other provisions	16	(148,385)	(125,695)
Other operating expenses	19	(2,188,329)	(2,025,177)
Operating profit		**2,144,139**	**1,409,714**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method		33,262	28,161
Profit before income tax		**2,177,401**	**1,437,875**
Income tax expense	15	(427,379)	(286,579)
Profit for the period		**1,750,022**	**1,151,296**
Attributable to:			
Equity holders of the parent		1,749,989	1,151,268
Non-controlling interest		33	28
		1,750,022	**1,151,296**
Basic and diluted earnings per share attributable to the equity holders of the Parent (expressed in TL per thousand share)	20	4.03	2.65

The accompanying notes set out on pages 6 to 45 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of comprehensive income for the six-month period ended June 30, 2016 and 2015
(Amounts expressed in thousands of TL unless otherwise indicated.)

	June 30, 2016	June 30, 2015
Profit for the period	**1,750,022**	**1,151,296**
Items that are or may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	27,858	103,109
Net gains / (losses) on available-for-sale financial assets		
- Unrealized net gains / (losses) arising during the period, before tax	710,310	(625,746)
- Net amount reclassified to the statement of income	(260,498)	(172,334)
Net investment hedges		
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax	(9,090)	(52,060)
Cash flow hedges		
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax	(848,687)	490,116
- Net amount reclassified to the statement of income	(10,278)	91,682
Income tax effect	**59,669**	**54,083**
	(330,716)	**(111,150)**
Items that will never be reclassified to profit or loss		
Re-measurement (losses) / gains on defined benefit liability	(60)	-
Income tax effect	14	-
	(46)	**-**
Other comprehensive income for the period, net of tax	**(330,762)**	**(111,150)**
Total comprehensive income for the period	**1,419,260**	**1,040,146**
Total comprehensive income attributable to:		
Equity holders of the parent (total)	1,419,227	1,040,118
Non-controlling interest (total)	33	28

The accompanying notes set out on pages 6 to 45 form an integral part of these consolidated financial statements.

Interim consolidated statement of changes in equity for the six-month period ended June 30, 2016 and 2015

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Attributable to equity holders of the parent						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2015	**4,286,580**	**535,679**	**955,565**	**15,569,527**	**21,347,351**	**460**	**21,347,811**
Total comprehensive income for the period	-	-	(111,150)	1,151,268	1,040,118	28	1,040,146
Dividends paid	-	-	-	(400,000)	(400,000)	(41)	(400,041)
Transfer to statutory reserves	-	-	110,512	(110,512)	-	-	-
Effect of change in non-controlling interest	-	-	-	-	-	-	-
Balance at June 30, 2015	**4,286,580**	**535,679**	**954,927**	**16,210,283**	**21,987,469**	**447**	**21,987,916**
Balance at January 1, 2016	**4,286,580**	**535,679**	**999,508**	**17,749,148**	**23,570,915**	**470**	**23,571,385**
Total comprehensive income for the period			(330,762)	1,749,989	1,419,227	33	1,419,260
Dividends paid	-	-	-	-	-	(37)	(37)
Transfer to statutory reserves	-	-	93,027	(93,027)	-	-	-
Effect of change in non-controlling interest	-	-	-	-	-	-	-
Balance at June 30, 2016	**4,286,580**	**535,679**	**761,773**	**19,406,110**	**24,990,142**	**466**	**24,990,608**

The accompanying notes set out on pages 6 to 45 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of cash flows for the six-month ended June 30, 2016 and 2015
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2016	June 30, 2015
Cash flows from operating activities			
Net profit		1,750,022	1,151,296
Adjustments for:			
Unrealized (gain) / loss on financial assets held for trading, net		(187)	260
Allowances for losses on loans, investment securities and credit related commitments	8,16	947,943	838,370
Measurement of derivative financial instruments at fair value	7	740,602	(536,453)
Share of profit of associates and joint ventures		(33,262)	(28,161)
Amortization of other intangible assets	19	60,479	64,577
Depreciation of property and equipment	19	104,491	101,467
Provision for current and deferred income taxes		427,379	286,579
Other provisions	16	148,385	125,695
Provision / (reversal) for retirement benefit obligations		24,189	(28,204)
Other liabilities		40,906	(79,776)
Unearned commission income		36,593	3,615
Dividend income		(6,054)	(5,866)
Interest income, net		(3,696,798)	(2,868,730)
Interest paid		(5,891,427)	(4,953,009)
Interest received		9,038,146	8,089,001
Effect of exchange rates on financing activities		3,112,662	4,255,652
Others, net		55,362	(795,678)
Cash flows from operating profits before changes in operating assets and liabilities		**6,859,431**	**5,620,635**
Changes in operating assets and liabilities:			
Net decrease / (increase) in cash balances with central banks		(1,839,637)	(1,724,767)
Net decrease / (increase) in loans and advances to banks		40,357	(143,610)
Net decrease / (increase) in trading securities		(55,105)	(43,155)
Net decrease / (increase) in loans and advances to customers		(9,860,085)	(18,946,939)
Net (increase) / decrease in other assets		(1,105,934)	(864,631)
Net increase / (decrease) in deposits from banks		(2,366,252)	1,831,440
Net (decrease) / increase in customer deposits		8,180,439	17,099,190
Net increase / (decrease) in other liabilities and provisions		565,281	1,185,054
Income taxes paid		(463,314)	(207,053)
Net cash from / (used in) operating activities		**(44,819)**	**3,806,164**
Cash flows from investing activities			
(Purchase of) property and equipment		(216,128)	(535,625)
Net book value of property and equipment disposed		48,374	15,371
(Purchase of) intangible assets, net		-	(60,386)
(Purchase of) held-to-maturity securities		(495,841)	(112,407)
Redemption or sale of held-to-maturity securities		74,690	148,140
(Purchase of) available-for-sale securities		(9,220,718)	(14,090,650)
Sale or redemption of available-for-sale securities		11,830,143	9,322,053
Dividends received		6,054	5,866
Net (used in) investing activities		**2,026,574**	**(5,307,638)**
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(8,070,675)	(3,653,332)
Proceeds from borrowed funds and debt securities		6,627,848	5,204,437
Dividend paid		(37)	(400,041)
Net cash from / (used in) financing activities		**(1,442,864)**	**1,151,064**
Net increase / (decrease) in cash and cash equivalents		**538,891**	**(350,410)**
Effects of foreign exchange rate changes on cash and cash equivalents		7,015	710,885
Cash and cash equivalents at beginning of period		10,236,565	11,167,393
Cash and cash equivalents at end of period	5	**10,782,471**	**11,527,868**

The accompanying notes set out on pages 6 to 45 form an integral part of these consolidated financial statements.

1. General information

Yapı ve Kredi Bankası A.Ş. ("YKB", the "Parent Bank" or the "Bank" or together with its subsidiaries it is referred to as "the Group" in these consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on September 9, 1944 as a private capital commercial bank, authorized to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its incorporation. The Group provides retail, corporate and private banking, credit cards, leasing, factoring and investment management services. The Group has operations in Turkey, the Netherlands, Azerbaijan, Russia and Malta.

The Group's controlling parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit Group ("UCG") and Koç Group. KFS was established as a financial holding company on March 16, 2001 to combine Koç Group financial services companies under one organization. As of October 22, 2002, Koç Group established a strategic partnership with UCG over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of June 30, 2016, 18.20% of the shares of the Bank are publicly traded (2015 – 18.20%). The Bank's publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on the London Stock Exchange.

At June 30, 2016, the Group has 19,597 employees (December 31, 2015 - 19,345 employees). The Bank has 981 branches operating in Turkey and one branch overseas (December 31, 2015 – 999 branches operating in Turkey, one branch overseas) and 18,532 employees (December 31, 2015 - 18,262 employees).

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

These interim condensed consolidated financial statements for the six month period ended June 30, 2016 have been approved for issue by the Board of Directors on August 23, 2016.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

These interim condensed consolidated financial statements for the period ended June 30, 2016 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2015.

The interim condensed consolidated financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira ("TL").

2. Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements as at June 30, 2016 are consistent with those followed in the preparation of the consolidated financial statements of the prior year.

Standards issued but not yet effective and not early adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 9 Financial Instruments - Final standard (2014)

The IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. However, the Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

Given the nature of the Group's operations, this standard is expected to have an impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in a change in the overall level of impairment allowances.

2. Summary of significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers:

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15's effective date is January 1, 2018, with early adoption permitted. Entities will adapt the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. In addition IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The following standards issued but not yet effective and not early adopted are not expected to have a significant impact of the Group's consolidated financial statements. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

- IFRS 16 Leases
- IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)
- IAS 7 Statement of Cash Flows (Amendments)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to TAS 16 and TAS 38)
- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)
- IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)
- IAS 1: Disclosure Initiative (Amendments to IAS 1)
- Annual Improvements to IFRSs - 2012-2014 Cycle

3. Changes to critical accounting estimates and judgements in applying accounting policies

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing these interim condensed consolidated financial statements, the significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2015.

4. Financial risk management

The Group's risk management functions are independent from the commercial operations along with committees such as Executive Committee and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring the Group's fulfilment of requirements stipulated by the Banking Law in a manner consistent with shareholders' risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel II requirements and Banking Law.

A. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives, reverse repos and settlement balances with market counterparties.

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

The Group manages credit risk through the following implementations:

(a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;

(b) development, enhancement and maintenance of rating and scoring models (probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD")) models for all segments for measuring, monitoring and controlling credit risk;

(c) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;

(d) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

(e) evaluation of new credit products, changes to existing ones and monitoring them to ensure the risk profile is compatible with the risk appetite and reputational risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, work-out procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);

(f) preparation of credit risk budget in line with predefined lending targets;

(g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of the loan portfolio for maintaining asset quality;

(h) execution of provisioning methodologies in line with Banking Regulation and Supervision Agency (BRSA) and IFRS principles.

Credit policies reflect general credit risk principles to be followed throughout the Group's lending activities and the related strategies and goals, as well as shareholders' risk appetites. The credit policy guideline is prepared by the Group's credit risk management department and approved by the Board of Directors.

The details of the loans and advances past due but not impaired (the Group defines this group as loans with a past due days between 30 to 90 days) which are classified under performing loans (including past due watch-listed loans) are as follows;

	June 30, 2016			December 31, 2015
	Past due between 30 – 60 days	Past due between 60 – 90 days	Total	Total
Corporate	942,627	784,139	1,726,766	1,204,066
Consumer	565,553	307,680	873,233	721,429
Credit cards	220,302	105,072	325,374	312,891
Leasing	3,949	3,703	7,652	17,809
Factoring	11,076	16,334	27,410	83,835
	1,743,507	1,216,928	2,960,435	2,340,030

The watch list category is defined as clients with payments past due 30 to 90 days and clients which are considered by the monitoring department on the basis of subjective criteria, to require close monitoring.

B. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. As a commercial group, the focus is on serving the financial needs of the customers, thereby generating exposure to interest rate, and foreign exchange risk.

The Market Risk Policy of the Group identifies risk-management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities and is sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for market making operations.

The Group trades mainly in FX and securities, within predefined limits. Risk limits are set on intra-day and end of day positions as well as Value-at-Risk, monitored on a daily basis.

4. Financial risk management (continued)

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is required to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from repricing and maturity mismatches. Besides Economic Value Sensitivity, an overall Value at Risk, covering all statement of financial position items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk.

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting applied (Note 7). The Group also uses derivative financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The limits are set by the Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchased and sold foreign currency derivative financial instruments.

June 30, 2016

	USD	EUR	Other	Foreign currency Total
Assets				
Cash and balances with central banks	13,892,424	4,723,396	4,675,478	23,291,298
Loans and advances to banks	1,783,699	1,553,220	93,870	3,430,789
Financial assets held for trading				
- Trading securities	39,609	1,134	-	40,743
- Derivative financial instruments	356,967	116,201	1,134	474,302
Loans and advances to customers	39,277,937	29,894,214	1,275,077	70,447,228
Hedging derivatives	-	-	-	-
Investment securities				
- Available-for-sale	2,452,434	656,689	221,009	3,330,132
- Held-to-maturity	4,781,569	756,258	-	5,537,827
Investment in associates and joint ventures	-	-	351,761	351,761
Property and equipment	-	2,503	23,355	25,858
Deferred income tax assets	-	4,749	-	4,749
Other assets	1,031,441	1,051,102	630,969	2,713,512
Total assets	63,616,080	38,759,466	7,272,653	109,648,199
Liabilities				
Deposits from banks	888,088	1,499,922	104,321	2,492,331
Customer deposits	37,869,880	24,835,089	1,821,693	64,526,662
Funds borrowed	18,497,390	9,615,482	220,927	28,333,799
Debt securities in issue	7,098,568	5,987,423	328,183	13,414,174
Financial liabilities designated at fair value	3,286,247	-	-	3,286,247
Derivative financial instruments	61,215	331,249	74,810	467,274
Current income taxes payable	-	1,343	72	1,415
Deferred income tax liabilities	-	93	3,712	3,805
Hedging derivatives	244,152	28,203	2	272,357
Other provisions	-	179	56	235
Retirement benefit obligations	-	17,248	-	17,248
Other liabilities	1,086,756	931,251	21,196	2,039,203
Total liabilities	69,032,296	43,247,482	2,574,972	114,854,750
Net balance sheet position	(5,416,216)	(4,488,016)	4,697,681	(5,206,551)
Off-balance sheet derivative instruments net notional position	5,291,690	4,347,930	(3,918,268)	5,721,352
Net foreign currency position	(124,526)	(140,086)	779,413	514,801

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2015

	USD	EUR	Other	Foreign currency Total
Assets				
Cash and balances with central banks	15,450,666	4,714,733	3,759,872	23,925,271
Loans and advances to banks	1,350,543	1,639,855	86,681	3,077,079
Financial assets held for trading				
- Trading securities	10,964	3,530	-	14,494
- Derivative financial instruments	167,438	53,521	52	221,011
Loans and advances to customers	41,353,109	23,889,247	1,043,752	66,286,108
Hedging derivatives	2,847	3,421	-	6,268
Investment securities				
- Available-for-sale	3,021,679	723,258	453,553	4,198,490
- Held-to-maturity	4,487,057	661,306	-	5,148,363
Investment in associates and joint ventures	-	-	338,140	338,140
Property and equipment	-	2,584	31,511	34,095
Deferred income tax assets	-	4,868	-	4,868
Other assets	800,198	788,892	178,504	1,767,594
Total assets	**66,644,501**	**32,485,215**	**5,892,065**	**105,021,781**
Liabilities				
Deposits from banks	2,805,835	1,063,242	93,729	3,962,806
Customer deposits	38,650,945	20,547,047	1,867,927	61,065,919
Funds borrowed	19,610,250	7,494,351	200,379	27,304,980
Debt securities in issue	6,151,883	6,211,633	275,045	12,638,561
Financial liabilities designated at fair value	3,253,119	-	-	3,253,119
Derivative financial instruments	284,209	13,716	20	297,945
Current income taxes payable	-	-	-	-
Deferred income tax liabilities	-	-	2,970	2,970
Hedging derivatives	81,283	27,682	-	108,965
Other provisions	-	176	517	693
Retirement benefit obligations	-	16,406	-	16,406
Other liabilities	1,360,381	1,296,480	28,468	2,685,329
Total liabilities	**72,197,905**	**36,670,733**	**2,469,055**	**111,337,693**
Net balance sheet position	**(5,553,404)**	**(4,185,518)**	**3,423,010**	**(6,315,912)**
Off-balance sheet derivative instruments net notional position	**5,272,930**	**4,306,950**	**(2,551,242)**	**7,028,638**
Net foreign currency position	**(280,474)**	**121,432**	**871,768**	**712,726**

At June 30, 2016, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 2.8936 = USD 1, and TL 3.2044 = EUR 1 (2015 - TL 2.9076= USD 1, and TL 3.17760 = EUR 1).

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk limits are set in terms of an economic value sensitivity limit and Basis Point Value ("BPV") limit. Economic value sensitivity analysis is performed according to a scenario of 2% shift in FX yield curve and 4% shift in TL yield curve. The resulting profit/loss should not exceed 20% (Sensitivity Limit) of the Bank's Tier 1 + Tier 2 Capital. The BPV limit restricts maximum interest rate risk position by currency and time buckets. BPV is applied for the banking book and represents the sensitivity of the banking book to 1 bp change in interest rates.

The table below summarizes the Group's exposure to interest rate risk at June 30, 2016 and December 31, 2015. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

June 30, 2016	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	17,111,639	45,720	-	-	11,498,570	28,655,929
Loans and advances to banks	2,689,843	93,847	165,350	-	1,190,082	4,139,122
Financial assets held for trading						
- Trading securities	3,120	7,419	9,356	48,505	61,131	129,531
- Derivative financial instruments	723,139	243,011	351,225	350,963	-	1,668,338
Loans and advances to customers	48,727,962	50,418,979	55,454,509	13,109,265	3,779,807	171,490,522
Hedging derivatives	447,300	176	3,932	-	-	451,408
Investment securities						
- Available-for-sale	7,460,803	6,582,938	3,317,466	3,397,246	180,988	20,939,441
- Held-to-maturity	468,409	1,115,884	1,278,156	4,642,060	-	7,504,509
Investment in associates and joint ventures	-	-	-	-	573,967	573,967
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	548,495	548,495
Property and equipment	-	-	-	-	1,292,899	1,292,899
Deferred income tax assets	-	-	-	-	309,521	309,521
Other assets	-	-	-	-	4,949,299	4,949,299
Total assets	77,632,215	58,507,974	60,579,994	21,548,039	25,408,287	243,676,509
Liabilities						
Deposits from banks	11,545,096	1,111,871	32,252	-	333,679	13,022,898
Customer deposits	101,587,962	7,971,033	912,405	327,604	22,526,036	133,325,040
Funds borrowed	22,921,739	8,922,547	1,003,389	991,689	-	33,839,364
Debt securities in issue	6,442,269	5,774,958	4,868,115	32,262	-	17,117,604
Financial liabilities designated at fair value	3,286,247	-	-	-	-	3,286,247
Derivative financial instruments	762,956	473,956	374,941	69,082	-	1,680,935
Current income taxes payable	-	-	-	-	222,241	222,241
Deferred income tax liabilities	-	-	-	-	3,805	3,805
Hedging derivatives	588,686	16,869	6,835	-	-	612,390
Other provisions	-	-	-	-	834,536	834,536
Retirement benefit obligations	-	-	-	-	720,473	720,473
Other liabilities	-	1,192	1,380	-	14,017,796	14,020,368
Total liabilities	147,134,955	24,272,426	7,199,317	1,420,637	38,658,566	218,685,901
Net interest repricing gap (on balance)	(69,502,740)	34,235,548	53,380,677	20,127,402	(13,250,279)	24,990,608
Off-balance sheet derivative instruments net notional position	22,597,111	(958,581)	(15,952,942)	(6,372,052)	-	(686,464)
Net interest repricing gap (net position)	(46,905,629)	33,276,967	37,427,735	13,755,350	(13,250,279)	24,304,144

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2015	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	17,087,214	58,152	-	-	10,243,581	27,388,947
Loans and advances to banks	1,997,656	170,961	-	-	1,229,014	3,397,631
Financial assets held for trading						
- Trading securities	7,674	11,917	25,262	21,253	8,133	74,239
- Derivative financial instruments	837,788	596,638	213,509	28,734	-	1,676,669
Loans and advances to customers	44,803,506	50,316,484	43,372,487	20,449,277	3,585,145	162,526,899
Hedging derivatives	700,932	254,618	5,491	-	-	961,041
Investment securities						
- Available-for-sale	7,671,178	7,561,054	3,788,649	3,409,185	273,097	22,703,163
- Held-to-maturity	396,679	1,221,604	1,143,899	4,346,627	-	7,108,809
Investment in associates and joint ventures	-	-	-	-	566,076	566,076
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	528,911	528,911
Property and equipment	-	-	-	-	1,281,051	1,281,051
Deferred income tax assets	-	-	-	-	185,900	185,900
Other assets	-	-	-	-	3,616,218	3,616,218
Total assets	**73,502,627**	**60,191,428**	**48,549,297**	**28,255,076**	**22,540,654**	**233,039,082**
Liabilities						
Deposits from banks	14,330,108	672,053	33,072	-	349,936	15,385,169
Customer deposits	97,720,843	6,398,343	685,677	288,583	19,961,986	125,055,432
Funds borrowed	22,808,211	8,022,988	768,127	825,696	-	32,425,022
Debt securities in issue	8,088,211	2,325,254	6,251,601	31,992	-	16,697,058
Financial liabilities designated at fair value	-	-	-	3,253,119	-	3,253,119
Derivative financial instruments	1,208,429	435,716	191,719	86,544	-	1,922,408
Current income taxes payable	-	-	-	-	195,800	195,800
Deferred income tax liabilities	-	-	-	-	2,970	2,970
Hedging derivatives	115,116	32,358	499	305	-	148,278
Other provisions	-	-	-	-	713,469	713,469
Retirement benefit obligations	-	-	-	-	715,637	715,637
Other liabilities	752	445,524	1,207	-	12,505,852	12,953,335
Total liabilities	**144,271,670**	**18,332,236**	**7,931,902**	**4,486,239**	**34,445,650**	**209,467,697**
Net interest repricing gap (on balance)	**(70,769,043)**	**41,859,192**	**40,617,395**	**23,768,837**	**(11,904,996)**	**23,571,385**
Off-balance sheet derivative instruments net notional position	24,460,633	(6,677,496)	(14,181,466)	(4,332,133)	-	(730,462)
Net interest repricing gap (net position)	**(46,308,410)**	**35,181,696**	**26,435,929**	**19,436,704**	**(11,904,996)**	**22,840,923**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at June 30, 2016 and December 31, 2015 based on yearly contractual rates.

	June 30, 2016			December 31, 2015		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets						
Cash and balances with central banks	0.49	-	3.51	0.21	-	2.09
Loans and advances to banks	0.69	1.15	11.24	1.88	1.53	13.54
Financial assets held for trading	4.68	2.83	9.02	3.92	2.06	8.72
Investment securities						
- Available-for-sale	5.84	4.02	9.35	5.81	4.41	9.96
- Held-to-maturity	5.40	3.17	10.64	5.39	3.40	10.61
Loans and advances to customers	5.60	4.12	13.41	5.34	4.06	14.48
Liabilities						
Deposits from banks	1.46	0.83	10.81	1.05	0.77	9.97
Customer deposits	2.27	1.40	11.33	2.21	1.51	12.73
Debt securities in issue	3.92	0.99	10.43	3.72	1.78	11.07
Funds borrowed	3.05	1.98	12.28	3.00	1.47	9.61

C. Liquidity risk

Liquidity risk is defined as the risk of unexpected loss occurring or the Group having difficulties in raising funds while meeting maturing liabilities. Liquidity management is daily monitored by the Bank under Treasury Management, Risk Management and Capital Management. The liquidity policy of the Group is approved by the Bank's Board of Directors. Treasury Management is responsible for carrying out transactions which are appropriate to Bank's policy, monitoring of liquidity position and submitting necessary reports to executives. Capital management contributes to determining strategies and operating actions for the management of the liquidity position in addition to preparing funding plans and contingency plans for the Bank in cooperation with Treasury Management. Liquidity risk is evaluated with liquidity gap analysis, liquidity stress tests and supplementary precautions/measurements. Liquidity Gap analysis is performed for two different periods as short-term and long-term. Going concern scenario and structural positions are reported monthly. This reporting constitutes the basis of monitoring and management of liquidity position.

The Bank functions as a central funding institution in its relations with its subsidiaries. Intra-group liquidity management and funding strategies are limited to related legal boundaries.

The Bank issues an annual funding plan in order to sustain funding in a consistent and balanced way. Funding plans have to be updated at least annually and approved by the Executive Committee since they comply with the budgeting process and risk appetite frameworks. The primary purpose of the funding plan is to provide a reliable balance between assets and liabilities.

Both short-term liquidity and long-term (structural) liquidity measurement and reporting for all types of currencies are periodically made for the Bank and its subsidiaries. There are limits which are predetermined and approved by the Board of Directors on the basis of all currencies for each period.

The Bank mainly uses derivative transactions for managing liquidity risk and monitors cash inflow and outflow periods in the framework of funding plan, balancing the distribution among currencies.

The Bank aims to reduce the risks to the lowest level via measuring possible risks in liquidity with stress tests. Stress tests make it possible for the Bank to reinterpret the analysis of its liquidity position according to scenarios depending on possible cases and tail risks except for crisis situations. The bank applies weekly liquidity stress tests consisting of different scenarios and maturity segments (maximum 60 days).

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

"Liquidity Contingency Plan" is applied if the Bank needs more liquidity than its daily liquidity need because of possible financial events in future. Duties and responsibilities are defined in detail in the aforementioned plan.

Cash, effective money, cheques, Central Bank of Republic of Turkey ("CBRT") reserves and debt instruments issued by Treasury of the Republic of Turkey are treated as high quality liquid assets.

Cash outflows from derivative transactions in liquidity coverage ratio calculation are based on inclusion of net cash flows with maturity of 30 days in the calculation. Additionally, transactions having a margin possibility are included in liquidity coverage ratio calculation by taking the largest amount according to absolute value of net margin flows realized in the last 24 months in respect of 30 day periods or for liability into consideration as cash outflow.

Secured funding consists of repo and secured loan transactions. A large part of securities which are subjects of aforementioned guaranteed funding transactions consist of Sovereign Bonds issued by Treasury of the Republic of Turkey and transactions carried out both in the CBRT market and the interbank market.

The Bank manages all the transactions made by its foreign branches and partnerships within the framework of central bank, markets and related legislation of the country in which the institutions are located. Legal lending limits and high limit transactions are closely monitored in this framework.

D. Capital management

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-statement of financial position exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with regulatory guidelines) minus deductions (which comprises participations to financial institutions, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 12%.

The Group's regulatory capital adequacy position on a consolidated basis at June 30, 2016 and December 31, 2015 was as follows:

	June 30, 2016	December 31, 2015
Tier I capital	22,522,425	20,625,944
Tier II capital	8,073,392	7,724,499
Deductions	(245,286)	(448,257)
Total regulatory capital	30,350,531	27,902,186
Risk-weighted assets (including market and operational risk)	223,849,757	216,058,900
Capital adequacy ratio (%)	**13.56**	**12.91**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

E. Fair value of financial instruments

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

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

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

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

The Group did not recognise any transfers between levels of the fair value hierarchy during the period.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements.

	June 30, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and advances to banks	4,139,122	4,140,774	3,397,631	3,399,450
Investment securities (held-to-maturity)	7,504,509	7,790,050	7,108,809	7,038,312
Loans and advances to customers	171,490,522	181,058,356	162,526,899	167,525,256
Financial liabilities:				
Deposits from banks	13,022,898	13,030,773	15,385,169	15,390,601
Customer deposits	133,325,040	134,085,401	125,055,432	125,648,296
Funds borrowed	33,839,364	33,888,443	32,425,022	33,446,377
Debt securities in issue	17,117,604	17,182,784	16,697,058	16,700,636

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

4. Financial risk management (continued)

Determination of fair value for financial instruments not measured at fair value

Loans and advances to banks

The fair value of overnight placements is considered to approximate their carrying amounts. The estimated fair value of interest bearing placements is based on discounted cash flows using prevailing money market interest rates at the statement of financial position date with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value. The credit risk is not considered when calculating the fair value of loans and advances to customers as in line with the pricing of such loans.

Investment securities

Fair value for held-to-maturity securities is based on market prices or prices prevailing at the statement of financial position date announced by the Istanbul Stock Exchange (BIST).

Customer deposits, deposits from banks, funds borrowed and debt securities in issue

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the statement of financial position date with similar credit risk, currency and remaining maturity. The fair value of debt securities in issue is considered to approximate its carrying amount.

Determination of fair value for financial instruments measured at fair value

Derivatives

Derivative products are valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments - available-for-sale

Available-for-sale financial assets are valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Other liabilities designated at fair value through profit or loss

For unquoted notes issued, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and own credit spreads.

Determination of fair value and fair value hierarchy:

IFRS 7 requires classification of line items at fair value presented in the financial statements according to defined levels. These levels depend on the observability of data used during fair value calculations. Classification for fair value is as below:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Assets and liabilities measured at fair value

June 30, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	68,400	-	-	68,400
- Equity securities	61,131	-	-	61,131
- Derivatives	-	1,668,338	-	1,668,338
Hedging derivatives	-	451,408	-	451,408
Available-for-sale financial assets				
- Investments securities - debt	18,992,230	1,853,967	-	20,846,197
- Investments securities - equity	13,464	79,780	-	93,244
Total assets	**19,135,225**	**4,053,493**	**-**	**23,188,718**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	1,680,935	-	1,680,935
- Financial Liabilities designated at fair value	-	3,286,247	-	3,286,247
Hedging derivatives	-	612,390	-	612,390
Total liabilities	**-**	**5,579,572**	**-**	**5,579,572**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	66,106	-	-	66,106
- Equity securities	8,133	-	-	8,133
- Derivatives	-	1,676,669	-	1,676,669
Hedging derivatives	-	961,041	-	961,041
Available-for-sale financial assets				
- Investments securities - debt	20,395,137	2,048,183	-	22,443,320
- Investments securities - equity	31,684	228,159	-	259,843
Total assets	**20,501,060**	**4,914,052**	**-**	**25,415,112**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	1,922,408	-	1,922,408
- Financial Liabilities designated at fair value	-	3,253,119	-	3,253,119
Hedging derivatives	-	148,278	-	148,278
Total liabilities	**-**	**5,323,805**	**-**	**5,323,805**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

In the current period, there was no transfer between Level 1 and Level 2. (2015: None)

The fair value amounts of the Bank's financial instruments disclosed in this note that are not carried at fair value in the financial statements are categorised in Level 2 in the fair value hierarchy except investment securities (held-to-maturity) which are categorised in Level 1.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flows

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	June 30, 2016	June 30, 2015
Cash and cash equivalents	2,363,429	2,296,912
Balances with central banks	26,292,500	23,287,569
Reserve deposits with central banks (-)	(22,206,094)	(19,177,043)
Loans and advances to banks (with original maturity less than 90 days) (+)	3,827,909	4,733,117
Other cash equivalents (+)	504,727	387,313
Total cash and cash equivalents at cash flow statement	**10,782,471**	**11,527,868**

In accordance with the announcements of CBRT numbered 2014-72 and dated October 21, 2014, and numbered 2015-33 and dated May 2, 2015, interest payments on TL and USD reserve balances (including the average balance) started on a quarterly basis, from November 2014 and May 2015, respectively.

The Bank keeps TL, USD, EUR and Gold reserve deposits for its TL and FX liabilities at the Central Bank Accounts in accordance with the legislation of the Central Bank numbered 2005/1, "Decree on Reserve Deposits".

Foreign reserve requirements:

Reserve requirements of De Nederlandsche Bank and the Central Bank of Malta represent reserve deposits equivalent to 1% of deposits and securities issued; excluding deposits with an agreed maturity of over two years or deposits redeemable with a notice period over 2 years, or repos and debt securities issued with an original maturity over two years which are taken into the calculation with a reserve ratio of 0%. Each institution may deduct a uniform lump-sum allowance from its reserve requirement. As specified in the European Central Bank Regulation on minimum reserves, the lump-sum allowance amounts to EUR 100,000.

Reserve requirements of the Central Bank of the Russian Federation represent reserve deposits equivalent to 4.25% of the liabilities to non-resident legal entities in rubles and 5.25% in foreign currency, 4.25% of the liabilities to natural persons in all currencies, 4.25% of the other liabilities in rubles and 5.25% in foreign currencies.

Reserve requirements of the National Bank of Azerbaijan represent reserve deposits equivalent to 0.5% (for AZN liabilities), 1.0% (for foreign currency liabilities) 0% (for non-resident financial sector's liabilities) of the statutory balances of customer accounts, due to banks and other funds borrowed.

(Amounts expressed in thousands of TL unless otherwise indicated.)

6. Financial assets held for trading

	June 30, 2016	December 31, 2015
Government bonds and treasury bills	68,400	66,106
Total debt securities	**68,400**	**66,106**
Equity securities - listed	61,131	8,133
Total equity securities	**61,131**	**8,133**
Total securities	**129,531**	**74,239**
Derivative financial instruments	1,668,338	1,676,669
Total financial assets held for trading	**1,797,869**	**1,750,908**

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey.

7. Derivative financial instruments and hedging activities

The Group utilizes the following derivative instruments with the general purpose of minimising market risk carried by balance sheet instruments and/or meeting customer demand:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in the over-the-counter (OTC) market. The Group has credit exposure to the counterparties of forward contracts.

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

"Options" are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. A major part of the Group's option book activity stems from clients' needs; therefore to meet client demands the Group actively runs an option book on the residual open positions which are not fully covered by economic hedging activities. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

"Interest rate cap and floor arrangements" provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of June 30, 2016, the Bank's credit derivatives portfolio is composed of "credit linked notes" (embedded derivatives are separated from host contract in line with IAS 39 and recorded as credit default swaps) and "credit default swaps". Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily while credit linked notes are valued monthly.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group's exposure to credit or price risks. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

June 30, 2016

	Contract/ notional amount (aggregate of buy and sell)	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	13,228,892	168,148	175,613
Currency swaps	76,484,592	399,725	617,202
Over the counter ("OTC") currency options	18,532,421	80,909	78,084
Total OTC foreign exchange derivatives	**108,245,905**	**648,782**	**870,899**
Interest rate derivatives:			
Interest rate swaps	35,558,498	504,675	384,194
Cross-currency interest rate swaps	11,120	499,534	373,290
OTC interest rate options	1,508,962	545	9,115
Total OTC interest rate derivatives	**37,078,580**	**1,004,754**	**766,599**
Other derivatives	27,701,083	14,802	43,437
Total derivative assets/ liabilities held for trading	**173,025,568**	**1,668,338**	**1,680,935**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	1,528,940	122,536	14,015
Derivatives designated as cash flow hedges:			
Interest rate swaps and cross currency interest rate swaps	48,075,889	328,872	598,375
Total derivative assets/ liabilities used for hedging	**49,604,829**	**451,408**	**612,390**
Total recognized derivative assets/ liabilities	**222,630,397**	**2,119,746**	**2,293,325**
Current		801,835	840,640
Non-current		1,317,911	1,452,685
Total recognized derivative assets/ liabilities	**222,630,397**	**2,119,746**	**2,293,325**

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

December 31, 2015

	Contract/ notional amount (aggregate of buy and sell)	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	9,676,902	152,220	97,167
Currency swaps	79,771,246	636,279	1,154,225
Over the counter ("OTC") currency options	13,430,833	114,815	111,048
Total OTC foreign exchange derivatives	**102,878,981**	**903,314**	**1,362,440**
Interest rate derivatives:			
Interest rate swaps	34,250,180	220,067	131,372
Cross-currency interest rate swaps	12,080,659	548,012	333,311
OTC interest rate options	1,877,668	-	7,582
Total OTC interest rate derivatives	**48,208,507**	**768,079**	**472,265**
Other derivatives	**15,142,751**	**5,276**	**87,703**
Total derivative assets/ liabilities held for trading	**166,230,239**	**1,676,669**	**1,922,408**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	1,612,361	257,144	4,231
Derivatives designated as cash flow hedges:			
Interest rate swaps	57,114,076	703,897	144,047
Total derivative assets/ liabilities used for hedging	**58,726,437**	**961,041**	**148,278**
Total recognized derivative assets/ liabilities	**224,956,676**	**2,637,710**	**2,070,686**
Current		993,542	1,872,046
Non-current		1,644,168	198,640
Total recognized derivative assets/ liabilities	**224,956,676**	**2,637,710**	**2,070,686**

Fair value hedges

Starting from March 1, 2009 and July 28, 2015 for marketable securities, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage, car loan portfolios and marketable securities and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funding and marketable securities by using cross-currency interest rate swaps. The net carrying value of fair value hedging derivatives at June 30, 2016 is an asset amounting to TL 108,521 (2015 - asset TL 252,913). At June 30, 2016, the marked to market difference of the hedging derivatives of the Bank is TL 24,525 gain (June 30, 2015 - TL 10,545 loss), the fair value difference of the hedged items is liability TL 19,902 (2015 – liability TL 28,479) and their changes in the fair value for the period amounts to liability TL 8,577 (2015 - liability TL 17,963).

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

Cash flow hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks.

In order to hedge its cash flow risk from liabilities, the Group started to apply cash flow hedge accounting from January 1, 2010 onwards. The hedging instruments are USD, EUR and TL interest rate swaps and cross currency swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to variable interest payments subject to repricing USD, EUR and TL customer deposits, repos and borrowings.

Net gain on cash flow hedges reclassified to the statement of income

The net gain / (loss) on cash flow hedges reclassified to the statement of income during the six month period ended June 30, 2016 was as follows:

	June 30, 2016	June 30, 2015
Net interest income / (expense)	10,278	(91,682)
Taxation	(2,056)	18,336

As of June 30, 2016, a loss of TL 6,687 (June 30, 2015 - TL 24,169 loss) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of June 30, 2016 net accumulated gain arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 419,207 loss (December 31, 2015 – TL 267,965 gain).

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings.

The Group's Euro denominated borrowing is designated as a hedge of the net investment in certain of the Group's EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at June 30, 2016 is EUR 352 million (December 31, 2015 - EUR 348 million). The foreign exchange loss of TL 329,728 (June 30, 2015 - TL 257,300), net of tax, on translation of the borrowing to TL at the statement of financial position date is recognized in "hedging reserves" in equity.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the period (June 30, 2015 - None).

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers

June 30, 2016

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	105,897,578	29,325,967	20,400,978	6,677,668	2,117,671	164,419,862
Watch listed loans	3,926,793	1,169,544	387,586	205,886	110,060	5,799,869
Loans under legal follow - up	4,146,276	1,776,614	1,228,976	294,895	136,515	7,583,276
Gross	**113,970,647**	**32,272,125**	**22,017,540**	**7,178,449**	**2,364,246**	**177,803,007**
Specific allowance for impairment	(2,992,211)	(1,028,954)	(985,331)	(250,695)	(119,969)	(5,377,160)
Collective allowance for impairment	(669,280)	(143,840)	(78,993)	(33,086)	(10,126)	(935,325)
Total allowance for impairment	**(3,661,491)**	**(1,172,794)**	**(1,064,324)**	**(283,781)**	**(130,095)**	**(6,312,485)**
Net	**110,309,156**	**31,099,331**	**20,953,216**	**6,894,668**	**2,234,151**	**171,490,522**

December 31, 2015

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	99,942,255	28,227,078	19,312,167	6,644,822	2,143,844	156,270,166
Watch listed loans	3,048,392	1,198,035	608,349	180,017	89,924	5,124,717
Loans under legal follow - up	3,521,810	1,527,753	1,059,720	279,521	130,318	6,519,122
Gross	**106,512,457**	**30,952,866**	**20,980,236**	**7,104,360**	**2,364,086**	**167,914,005**
Specific allowance for impairment	(2,606,008)	(1,009,122)	(695,247)	(244,005)	(104,962)	(4,659,344)
Collective allowance for impairment	(512,975)	(135,119)	(36,740)	(32,802)	(10,126)	(727,762)
Total allowance for impairment	**(3,118,983)**	**(1,144,241)**	**(731,987)**	**(276,807)**	**(115,088)**	**(5,387,106)**
Net	**103,393,474**	**29,808,625**	**20,248,249**	**6,827,553**	**2,248,998**	**162,526,899**

The loans amounting to TL 211,854 (at amortized cost) included in the performing loans and advances to consumers have been designated as hedged items in fair value hedges as of June 30, 2016 (December 31, 2015 - TL 444,417). Those loans have been hedged with interest rate swaps as part of a documented interest rate risk management strategy. The carrying values of such loans that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers (continued)

Reconciliation of impairment allowance account for losses on loans and advances by class is as follows:

	Corporate	Consumer	Credit cards	Leasing	Factoring	2016 Total
At January 1	**3,118,983**	**1,144,241**	**731,987**	**276,807**	**115,088**	**5,387,106**
Provision for loan impairment	629,125	111,040	371,729	15,077	15,438	1,142,409
Amounts recovered during the period	(88,541)	(83,367)	(39,530)	(8,103)	(431)	(219,972)
Loans written off during the period as uncollectible (-) [1]	(108)	(420)	-	-	-	(528)
Exchange differences	2,032	1,300	138	-		3,470
At June 30	**3,661,491**	**1,172,794**	**1,064,324**	**283,781**	**130,095**	**6,312,485**

	Corporate	Consumer	Credit cards	Leasing	Factoring	2015 Total
At January 1	**2,430,950**	**774,016**	**383,028**	**235,721**	**77,619**	**3,901,334**
Provision for loan impairment	1,210,010	419,920	371,523	68,971	38,746	2,109,170
Amounts recovered during the year	(481,849)	(44,880)	(20,511)	(27,263)	(1,275)	(575,778)
Loans written off during the year as uncollectible (-) [1]	(37,568)	(44)	(16)	(622)	(2)	(38,252)
Exchange differences	(2,560)	(4,771)	(2,037)	-	-	(9,368)
At December 31	**3,118,983**	**1,144,241**	**731,987**	**276,807**	**115,088**	**5,387,106**

(1) Includes the effect of provision releases due to sales from loans under legal follow – up.

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers (continued)

The calculation of net investment in direct finance leases is as follows:

	June 30, 2016	December 31, 2015
Gross investment in direct finance leases	8,377,386	8,255,854
Unearned finance income	(1,334,496)	(1,275,248)
	7,042,890	**6,980,606**
Interest accrual on receivables	99,079	87,171
Receivables from outstanding lease payments	36,480	36,583
Provision for impaired lease receivables	(283,781)	(276,807)
Net investment in direct finance leases	**6,894,668**	**6,827,553**

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	June 30, 2016	December 31, 2015
Less than 1 year	2,321,692	2,253,769
More than 1 year but not later than 5 years	4,888,438	4,836,083
Later than 5 years	802,034	830,218
Less: unearned finance income	(1,334,496)	(1,275,248)
Investment in performing lease receivables	**6,677,668**	**6,644,822**

(Amounts expressed in thousands of TL unless otherwise indicated.)

9. Investment securities

(i) Securities available-for-sale

	June 30, 2016	December 31, 2015
Debt securities - at fair value:		
Government bonds and treasury bills	8,926,031	9,884,293
Eurobonds	1,633,561	2,109,775
Government and corporate bonds and treasury bills sold under repurchase agreements	7,813,438	7,973,339
Eurobonds sold under repurchase agreements	346,060	415,824
Other	2,127,107	2,060,089
Equity securities - at fair value:		
Listed	-	-
Unlisted [1]	93,244	259,843
Total securities available-for-sale	**20,939,441**	**22,703,163**
Current	1,672,832	3,691,537
Non-current	19,266,609	19,011,626

(1) After the completion of the acquisition of Visa Europe by Visa Inc., 18.871 Series C Visa Inc. preferred shares have been allocated to the Bank.

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and credit linked notes and other bonds issued by domestic and foreign financial institutions.

Net gain from changes in the fair value of available-for-sale investment securities, net of tax is TL 335,870 (June 30, 2015 - TL 638,057 net loss). There are no impairments recognized for available-for-sale debt securities.

(ii) Securities held-to-maturity

	June 30, 2016	December 31, 2015
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	1,802,012	1,606,546
Eurobonds	4,706,810	2,275,619
Government bonds and treasury bills sold under repurchase agreements	355,244	542,745
Eurobonds sold under repurchase agreement	447,790	2,193,716
Foreign government bonds	192,653	490,183
Total securities held-to-maturity	**7,504,509**	**7,108,809**
Current	544,385	233,872
Non-current	6,960,124	6,874,937

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Deposits from banks

	June 30, 2016			December 31, 2015		
	Demand	Term	Total	Demand	Term	Total
Foreign currency:						
Domestic banks	159,439	90,077	249,516	577	29,076	29,653
Foreign banks	68,323	1,546,839	1,615,162	260,655	1,507,043	1,767,698
Funds deposited under repurchase agreements	-	627,508	627,508	-	2,165,386	2,165,386
	227,762	2,264,424	2,492,186	261,232	3,701,505	3,962,737
TL:						
Domestic banks	15,654	2,399,133	2,414,787	149	2,190,405	2,190,554
Foreign banks	90,263	84,679	174,942	88,555	1,039,862	1,128,417
Funds deposited under repurchase agreements	-	7,940,983	7,940,983	-	8,103,461	8,103,461
	105,917	10,424,795	10,530,712	88,704	11,333,728	11,422,432
	333,679	12,689,219	13,022,898	349,936	15,035,233	15,385,169
Current	333,679	12,656,970	12,990,649	349,936	15,002,161	15,352,097
Non-current	-	32,249	32,249	-	33,072	33,072

11. Customer deposits

	June 30, 2016			December 31, 2015		
	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:						
Saving deposits	4,528,874	20,102,271	24,631,145	4,111,032	19,705,185	23,816,217
Commercial deposits	6,289,542	33,605,975	39,895,517	5,899,134	31,350,568	37,249,702
	10,818,416	53,708,246	64,526,662	10,010,166	51,055,753	61,065,919
TL deposits:						
Saving deposits	5,353,008	32,402,175	37,755,183	4,219,828	29,342,955	33,562,783
Commercial deposits	5,174,615	24,526,878	29,701,493	4,898,385	24,474,484	29,372,869
Funds deposited under repurchase agreements	-	71,446	71,446	-	146,686	146,686
Public sector deposits	1,179,997	90,259	1,270,256	833,607	73,568	907,175
	11,707,620	57,090,758	68,798,378	9,951,820	54,037,693	63,989,513
	22,526,036	110,799,004	133,325,040	19,961,986	105,093,446	125,055,432
Current	22,526,036	109,558,994	132,085,030	19,961,986	104,119,190	124,081,176
Non-current	-	1,240,010	1,240,010	-	974,256	974,256

(Amounts expressed in thousands of TL unless otherwise indicated.)

12. Funds borrowed

	June 30, 2016	December 31, 2015
Foreign institutions and banks		
Syndication loans	5,793,868	7,586,105
Subordinated debt	3,064,850	3,716,041
Other	18,918,803	15,297,513
Total foreign	**27,777,521**	**26,599,659**
Domestic institutions and banks		
Domestic banks	1,530,526	1,977,362
Interbank money market and Settlement Custody Bank	4,531,317	3,848,001
Total domestic	**6,061,843**	**5,825,363**
	33,839,364	**32,425,022**
Current	22,268,742	21,550,956
Non-current	11,570,622	10,874,066

On May 15, 2015, the Parent Bank paid a subordinated loan before its maturity amounting to EUR 500 million, with 10 years maturity which was originated on March 31, 2006. The interest rate was EURIBOR+3% (for the first five years it was EURIBOR+2%). The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor.

The Parent Bank obtained a subordinated loan on June 25, 2007 amounting to EUR 200 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate was determined as EURIBOR+1.85% for the first 5 years and EURIBOR+2.78% for the remaining 5 years. The loan was obtained from Citibank, N.A., London Branch with Unicredito Italiano SpA as guarantor. On June 30, 2016, the Parent Bank paid the subordinated loan before its maturity amounting to EUR 200 million.

The Parent Bank had early repaid its borrowing for USD 585 million on January 9, 2013 the Bank has received from Unicredit Bank Austria AG on February 22, 2012 with an interest rate of 3 months Libor + 8,30% and received another subordinated borrowing from the same counterparty for USD 585 million with 10 years of maturity (payable after 5 years) and 5,5% fixed interest rate. The Parent Bank incurred an early payment fee for TL 57 million with respect to early closing of this subordinated loan. As per the approval of BRSA dated December 31, 2012 this loan was accepted as a subordinated loan. On January 30, 2015, relevant articles of this agreement have been amended in accordance with Article 8 of the Regulation Regarding Equity of Banks, which is the relevant legislation in force issued by the BRSA. In addition, the interest rate in the credit agreement has been updated as 5.70%.

The Parent Bank obtained a subordinated loan on December 18, 2013 amounting to USD 470 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate is determined as 6.35% for the first 5 years and midswap+4.68% for the remaining 5 years. The loan was obtained from Unicredit Bank Austria AG. On January 30, 2015, relevant articles of this agreement have been amended in accordance with Article 8 of the Regulation on Own Fund of Banks. In addition, the interest rate has been amended to 6.55%.

(Amounts expressed in thousands of TL unless otherwise indicated.)

13. Debt securities in issue

	June 30, 2016	December 31, 2015
Securitization borrowings	2,467,251	2,830,155
Subordinated debt	4,390,737	2,919,150
Bills	1,733,111	2,558,057
Bonds	8,526,505	8,389,696
	17,117,604	**16,697,058**
Current	5,838,645	5,327,436
Non-current	11,278,959	11,369,622
	17,117,604	**16,697,058**

On November 29, 2012, the Parent Bank launched a Basel II compliant 10 year bullet subordinated note transaction for an amount of USD 1 billion. The note has a 5.5% coupon and was counted towards capital at 37% as of June 30, 2016.

On March 8, 2016, the Parent Bank launched a Basel III compliant subordinated note transaction with a 10 year 1 day maturity and an early payment option at the end of the 5th year for an amount of USD 500 million. The note has an 8.5% coupon.

14. Financial Liabilities Designated at Fair Value

The Group classified some of its debt securities issued as financial liabilities designated at fair value in order to eliminate the accounting mismatch at initial recognition in accordance with IAS 39 paragraph 9. As of June 30, 2016, the total amount of financial liabilities designated at fair value through profit/loss is TL 3,286,247 (December 31, 2015-TL 3,253,119) and the fair value difference is TL 51,224 (December 31, 2015-TL 96,945 income) recognized in the income statement as expense.

The nominal amounts of the total return swaps which are closely related with debt securities issued as financial liabilities designated at fair value as of June 30, 2016 are TL 3,316,066 (December 31, 2015: TL 3,332,109) for buy legs and TL 3,316,066 (December 31, 2015: TL 3,332,109) for sell legs with a fair value differences amounting to TL 35,601(December 31, 2015: 82,870 TL). The mentioned total return swaps have 10 year maturity in average.

(Amounts expressed in thousands of TL unless otherwise indicated.)

15. Taxation

	June 30, 2016	June 30, 2015
Current tax expense	(489,755)	(186,401)
Deferred tax income / (expense)	62,376	(100,178)
Income tax expense	**(427,379)**	**(286,579)**

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

Deferred income taxes

For all domestic subsidiaries and the Parent Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled under the liability method using a principal tax rate of 20% at June 30, 2016 (December 31, 2015 - 20%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method before the exemptions using the principal tax rates at June 30, 2016 and December 31, 2015 which are as follows:

	Tax rate (%)	
Country of incorporation	**June 30, 2016**	**December 31, 2015**
Russia	20.00	20.00
Netherlands	25.00	25.00
Azerbaijan	20.00	20.00
Malta	35.00	35.00

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Impairment on assets	423,135	422,586	50,559	50,448
Allowance for loan impairment	987,453	971,134	197,455	194,190
Pension benefits transferable to the Social Security Institution ("SSI")	574,249	574,249	114,850	114,850
Reserve for employment termination benefits	146,359	141,388	32,500	32,566
Revaluation of derivative instruments at fair value	2,327,861	2,108,733	459,931	414,519
Valuation differences on investment securities	62,180	45,185	12,437	9,039
Other	1,036,192	744,799	207,082	148,796
Deferred income tax assets	**5,557,429**	**5,008,074**	**1,074,814**	**964,408**
Difference between carrying value and tax base of property and equipment	689,429	697,225	80,671	82,803
Valuation differences on investment securities	885,349	607,755	177,662	121,578
Revaluation of derivative instruments at fair value	2,246,099	2,784,083	451,300	561,587
Other	274,050	77,551	59,465	15,510
Deferred income tax liabilities	**4,094,927**	**4,166,614**	**769,098**	**781,478**
Deferred income tax assets, net [1]	**1,462,502**	**841,460**	**305,716**	**182,930**

(1) Includes TL 3,805 deferred tax liabilities as of June 30, 2016 (December 31, 2015 – TL 2,970).

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Other provisions

	June 30, 2016	December 31, 2015
Provision for losses on credit related commitments	436,301	410,785
Tax and other legal provisions	129,476	125,134
Provisions on credit cards and promotion campaigns	38,668	38,678
Provision on export commitment estimated liability	45,413	46,052
Other	184,678	92,820
	834,536	**713,469**
Current	-	-
Non-current	834,536	713,469

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 436,301 (2015 - TL 410,785).

Tax and other legal provisions

The Group has recorded a provision of TL 64,437 (2015 - TL 64,875) for litigation and has accounted for it in the financial statements under the "Other provisions" account, Except for the cases where provisions are recorded, management considers that negative results in ongoing litigations resulting in cash outflows is not probable.

The Group also recorded a total provision of TL 65,039 (2015 - TL 60,259) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the period ended June 30, 2016.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up where they do not have the ability to fulfill their export commitments and have recognized a provision of TL 45,413 (2015 - TL 46,052).

Movement in other provisions is as follows:

	Provision for credit related commitments	Tax and other legal provisions	Provisions on credit cards and promotion campaigns	Export commitment provisions	Other	June 30, 2016 Total	December 31, 2015 Total
At the beginning of the Period	**410,785**	**125,134**	**38,678**	**46,052**	**92,820**	**713,469**	**710,139**
Provision charged	25,506	6,295	424	-	141,666	173,891	185,471
Provision used / released	-	(1,953)	-	(639)	(49,808)	(52,400)	(181,894)
Translation difference	10	-	(434)	-	-	(424)	(247)
Balance at the end of Period	**436,301**	**129,476**	**38,668**	**45,413**	**184,678**	**834,536**	**713,469**

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Retained earnings and other reserves

	June 30, 2016	December 31, 2015
Statutory reserve	844,564	751,537
Translation reserves	534,249	506,391
Revaluation reserve - available-for-sale investments	93,635	(242,235)
Hedging reserves	(748,932)	(54,488)
Re-measurement gains on defined benefit liability	5,564	5,610
Revaluation of property, plant and equipment	32,693	32,693
Total other reserves	**761,773**	**999,508**
Retained earnings	**19,406,110**	**17,749,148**

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Actuarial gains	Revaluation of fixed assets	Total
At January 1, 2016	751,537	(242,235)	506,391	(54,488)	5,610	32,693	999,508
Net change in available-for-sale investments, net of tax	-	335,870	-	-	-	-	335,870
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	(7,272)	-	-	(7,272)
Gains / (losses) on cash flow hedges	-	-	-	(687,172)	-	-	(687,172)
Currency translation differences	-	-	27,858	-	-	-	27,858
Re-measurement gains on defined benefit liability, net of tax	-	-	-	-	(46)	-	(46)
Transfer to statutory reserves	93,027	-	-		-	-	93,027
At June 30, 2016	844,564	93,635	534,249	(748,932)	5,564	32,693	761,773

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Actuarial gains	Revaluation of fixed assets	Total
At January 1, 2015	641,025	429,515	401,303	(523,203)	(10,900)	17,825	955,565
Net change in available-for-sale investments, net of tax	-	(638,057)	-	-	-	-	(638,057)
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	(41,648)	-	-	(41,648)
Gains / (losses) on cash flow hedges	-	-	-	465,446	-	-	465,446
Currency translation differences	-	-	103,109	-	-	-	103,109
Re-measurement gains on defined benefit liability, net of tax	-	-	-	-	-	-	-
Transfer to statutory reserves	110,512	-	-	-	-	-	110,512
At June 30, 2015	751,537	(208,542)	504,412	(99,405)	(10,900)	17,825	954,927

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Retained earnings and other reserves (continued)

Retained earnings as per the statutory financial statements other than statutory reserves are available for distribution, subject to the statutory reserve requirement referred to below.

Under the Turkish Commercial Code, the Group is required to create the following statutory reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First statutory reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second statutory reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the statutory reserves as discussed above, the remaining balance of statutory net profit is available for distribution to shareholders.

As per the Ordinary General Assembly meeting held for the year 2015 on March 31, 2016 it has been decided that no dividend is to be paid to shareholders.

18. Net trading, hedging and fair value income and net gains / losses from investment securities

	June 30, 2016	June 30, 2015
Foreign exchange:		
- Transaction gains less losses on derivatives and securities	1,102,945	(616,022)
Interest rate instruments	(831,785)	680,080
Credit derivatives	2,537	(2,866)
	273,697	**61,192**

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Interest rate instruments include the results of making markets in government securities, money market instruments, interest rate and cross currency interest rate swaps, options, hedge items and other derivatives.

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Other operating expenses

	June 30, 2016	June 30, 2015
Staff costs	**(1,143,084)**	**(1,054,162)**
Depreciation on property and equipment	(104,491)	(101,467)
Amortization of intangible assets	(60,479)	(64,577)
Depreciation and amortization	**(164,970)**	**(166,044)**
Rent expenses	(153,918)	(133,673)
Payment to Saving Deposit Insurance Fund	(84,628)	(69,795)
Communication expenses	(81,481)	(64,661)
Sundry taxes and duties	(66,896)	(66,931)
Marketing and advertisement costs	(64,254)	(72,143)
Repair and maintenance expenses	(49,652)	(41,900)
Audit and consultancy fees	(42,902)	(29,951)
Utilities expenses	(25,262)	(25,014)
Other	(311,282)	(300,903)
General and administrative expenses	**(880,275)**	**(804,971)**
Total	**(2,188,329)**	**(2,025,177)**

20. Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the period in which they were issued and for each earlier period.

The Bank has not issued any shares attributable to transfers to share capital from retained earnings during the period ended June 30, 2016 (June 2015 - none).

The earnings attributable to basic shares for each period are as follows

	June 30, 2016	June 30, 2015
Profit attributable to equity holders of the Parent	1,749,989	1,151,268
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	**4.03**	**2.65**

(Amounts expressed in thousands of TL unless otherwise indicated.)

21. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	June 30, 2016		December 31, 2015	
	Assets	Related liability	Assets	Related liability
Investment securities (Note 9)	16,356,800	13,056,738	18,706,686	14,351,251
Other assets pledged [1]	1,066,909	-	660,879	-
Total	17,423,709	13,056,738	19,367,565	14,351,251

(1) Other assets pledged represent collateral given to the counterparties of the derivative transactions and the additional collateral given in relation to funds obtained under repurchase agreements.

Available-for-sale, held-to-maturity and trading securities whose total carrying amount is TL 10,302,792 as of June 30, 2016 (December 31, 2015 - TL 12,775,342) are pledged to banks and other financial institutions against borrowed funds and funds obtained under repurchase agreements and total return swap transactions. The total amount of funds obtained under repurchase agreements and total return swaps is TL 13,056,738 as of June 30, 2016 (December 31, 2015 - TL 14,351,251). In accordance with the terms of the agreements with these financial institutions ("transferees"), the Bank provides this collateral (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 6,054,008 (2015 - TL 5,931,344).

As of June 30, 2016, the Group's reserve deposits, including those at foreign central banks, amount to TL 25,943,028 (2015 - TL 25,118,042). There is also TL 189,346 (December 31, 2015 - TL 179,900) of blocked deposits held in foreign bank accounts.

The Group does not have any financial assets and liabilities that are offset in the financial statements or subject to an enforceable master netting agreement or similar agreements. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the above transactions summarized in the above table.

22. Commitments and contingent liabilities

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognizes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

(Amounts expressed in thousands of TL unless otherwise indicated.)

22. Commitments and contingent liabilities (continued)

In respect of the further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

As of June 30, 2016 the Group's commitments for unused credit card limits amounted to TL 29,351,694 (December 31, 2015 - TL 28,304,464).

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

June 30, 2016(1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	175,072	8,066,434	979,049	1,086	9,221,641
Letter of guarantees	25,659,992	13,627,346	7,481,694	1,040,882	47,809,914
Acceptance credits	3	165,855	15,321	-	181,179
Other commitments	300,172	1,686,420	746,635	2,151,340	4,884,567
Total	**26,135,239**	**23,546,055**	**9,222,699**	**3,193,308**	**62,097,301**

December 31, 2015(1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	371,490	5,416,736	2,251,603	4,034	8,043,863
Letter of guarantees	24,019,787	7,062,457	12,263,282	1,825,476	45,171,002
Acceptance credits	-	147,671	24,795	1,058	173,524
Other commitments	678,044	382,031	1,519,599	1,676,133	4,255,807
Total	**25,069,321**	**13,008,895**	**16,059,279**	**3,506,701**	**57,644,196**

(1) Based on original maturities.

23. Segment analysis

The Group carries out its banking operations through three main business units: (1) Retail Banking (including credit cards and SME banking), (2) Corporate and Commercial Banking (3) Private Banking and Wealth Management.

The Group's Retail Banking activities include card payment systems, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages), commercial installment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, has a product range of working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

Through its Private Banking and Wealth Management activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, capital guaranteed funds, mutual funds, Type A Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments. Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan, Russia and Malta. Treasury, Asset – Liability Management and other operations, mainly consist of treasury management's results, operations of supporting business units and other unallocated transactions.

The below table is prepared in accordance with the Management Information System (MIS) data of the Group.

(Amounts expressed in thousands of TL unless otherwise indicated.)

23. Segment analysis (continued)

The Group's management manages segment performance based on IFRS consolidated figures.

June 30, 2016	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Treasury, asset liability man. & Other[1]	Eliminations[2]	Group
Segment revenue	2,220,197	1,367,496	118,422	118,679	298,771	1,433,252	(103,832)	5,452,985
Segment expenses	(2,002,745)	(446,001)	(49,844)	(64,358)	(103,513)	(646,847)	4,462	(3,308,846)
Segment result	217,452	921,495	68,578	54,321	195,258	786,405	(99,370)	2,144,139
Operating profit	**217,452**	**921,495**	**68,578**	**54,321**	**195,258**	**786,405**	**(99,370)**	**2,144,139**
Share of results of associates and joint ventures	-	-	-	-	-	33,262	-	33,262
Profit before tax	**217,452**	**921,495**	**68,578**	**54,321**	**195,258**	**819,667**	**(99,370)**	**2,177,401**
Profit from discontinued operations, net of tax	-	-	-	-	-	-	-	-
Income tax expense[4]	-	-	-	-	-	(427,379)	-	(427,379)
Profit for the period	**217,452**	**921,495**	**68,578**	**54,321**	**195,258**	**392,288**	**(99,370)**	**1,750,022**
June 30, 2016								
Segment assets[3]	69,161,491	74,348,275	165,790	8,380,654	14,151,053	79,362,172	(2,466,893)	243,102,542
Associates and joint ventures	-	-	-	-	-	573,967	-	573,967
Total assets	**69,161,491**	**74,348,275**	**165,790**	**8,380,654**	**14,151,053**	**79,936,139**	**(2,466,893)**	**243,676,509**
Segment liabilities[3]	54,862,366	50,082,946	31,687,916	6,929,944	12,068,202	90,938,764	(2,893,629)	243,676,509
Total liabilities	**54,862,366**	**50,082,946**	**31,687,916**	**6,929,944**	**12,068,202**	**90,938,764**	**(2,893,629)**	**243,676,509**

(1) Other segment liabilities also include equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.
(3) Segment asset and liabilities figures are prepared according to Management Information Systems (MIS) data.
(4) Income tax expenses have not been distributed based on operating segments and have been presented under "Treasury, asset liability management and other".

June 30, 2015	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Treasury, asset liability man. & Other[1]	Eliminations[2]	Group
Segment revenue	1,904,208	1,118,547	104,828	116,627	268,439	917,316	(59,213)	4,370,752
Segment expenses	(1,747,808)	(488,649)	(44,314)	(72,963)	(112,450)	(497,791)	2,937	(2,961,038)
Segment result	156,400	629,898	60,514	43,664	155,989	419,525	(56,276)	1,409,714
Operating profit	**156,400**	**629,898**	**60,514**	**43,664**	**155,989**	**419,525**	**(56,276)**	**1,409,714**
Share of results of associates and joint ventures	-	-	-	-	-	28,161	-	28,161
Profit before tax	**156,400**	**629,898**	**60,514**	**43,664**	**155,989**	**447,686**	**(56,276)**	**1,437,875**
Profit from discontinued operations, net of tax	-	-	-	-	-	-	-	-
Income tax expense[4]	-	-	-	-	-	(286,579)	-	(286,579)
Profit for the period	**156,400**	**629,898**	**60,514**	**43,664**	**155,989**	**161,107**	**(56,276)**	**1,151,296**
December 31, 2015								
Segment assets[3]	67,828,587	69,410,903	169,838	7,539,992	13,045,446	76,408,229	(1,929,989)	232,473,006
Associates and joint ventures	-	-	-	-	-	566,076	-	566,076
Total assets	**67,828,587**	**69,410,903**	**169,838**	**7,539,992**	**13,045,446**	**76,974,305**	**(1,929,989)**	**233,039,082**
Segment liabilities[3]	51,068,598	49,253,094	28,125,979	6,156,919	11,041,206	89,753,787	(2,360,501)	233,039,082
Total liabilities	**51,068,598**	**49,253,094**	**28,125,979**	**6,156,919**	**11,041,206**	**89,753,787**	**(2,360,501)**	**233,039,082**

(1) Other segment liabilities also include equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.
(3) Segment asset and liabilities figures are prepared according to Management Information Systems (MIS) data.
(4) Income tax expenses have not been distributed based on operating segments and have been presented under "Treasury, asset liability management and other".

(Amounts expressed in thousands of TL unless otherwise indicated.)

24. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by Koç Group and UCG, owning 50% of the ordinary shares each of KFS.

A number of transactions were entered into with related parties in the normal course of business,

(i) Balances with related parties:

	June 30, 2016			
	Parent	Other[1]	Key management	Total
Loans and advances to customers, net	92,979	2,033,742	71	2,126,792
Trading and investment securities	-	142,919	-	142,919
Derivative financial instruments	-	404	-	404
Loans and advances to banks	109,503	36,853	-	146,356
Other assets	51	3,023	-	3,074
Total assets	**202,533**	**2,216,941**	**71**	**2,419,545**
Customer deposits	11,129,733	4,882,027	266,955	16,278,715
Funds borrowed	16,861,635	129,365	-	16,991,000
Derivative financial instruments	30,478	536	-	31,014
Other liabilities	8	49	-	57
Deposits from banks	637,221	143,965	-	781,186
Total liabilities	**28,659,075**	**5,155,942**	**266,955**	**34,081,972**
Commitment under derivative instruments	1,927,707	1,068,127	-	2,995,834
Credit related commitments	1,379,003	2,663,181	-	4,042,184
Total commitments and contingent liabilities	**3,306,710**	**3,731,308**	**-**	**7,038,018**

	December 31, 2015			
	Parent	Other[1]	Key management	Total
Loans and advances to customers, net	106,535	1,994,450	28	2,101,013
Trading and investment securities	-	-	-	-
Derivative financial instruments	-	3,262	-	3,262
Loans and advances to banks	346	41,240	-	41,586
Other assets	-	106	-	106
Total assets	**106,881**	**2,039,058**	**28**	**2,145,967**
Customer deposits	8,874,937	4,598,601	140,158	13,613,696
Funds borrowed	10,526,870	241,175	-	10,768,045
Derivative financial instruments	28,192	-	-	28,192
Other liabilities	29	67	-	96
Deposits from banks	631,844	144,359	-	776,203
Total liabilities	**20,061,872**	**4,984,202**	**140,158**	**25,186,232**
Commitment under derivative instruments	1,455,484	146,778	-	1,602,262
Credit related commitments	954,585	2,450,395	-	3,404,980
Total commitments and contingent liabilities	**2,410,069**	**2,597,173**	**-**	**5,007,242**

(1) Other consists of entities with joint control or significant influence over entities, associates and joint ventures in which they are joint-venturer or related parties.

(Amounts expressed in thousands of TL unless otherwise indicated.)

24. Related party transactions (continued)

(ii) Transactions with related parties:

	June 30, 2016			
	Parent	Other[1]	Key management	Total
Interest income on loans and advances to customers	1,868	118,022	-	119,890
Fee and commission income	8,548	21,460	-	30,008
Interest income on financial leases	-	17,558	-	17,558
Interest income on loans and advances to banks	-	228	-	228
Other operating income	-	-	-	-
Total interest and fee income	**10,416**	**157,268**	**-**	**167,684**
Interest expense on deposits	(507,002)	(257,366)	(6,483)	(770,851)
Interest expense on funds borrowed	(39,893)	(69,280)	-	(109,173)
Other operating expense	(1,397)	(2,168)	-	(3,565)
Fee and commission expense	-	(110)	-	(110)
Total interest and fee expense	**(548,292)**	**(328,924)**	**(6,483)**	**(883,699)**

	June 30, 2015			
	Parent	Other[1]	Key management	Total
Interest income on loans and advances to customers	8,832	93,708	-	102,540
Fee and commission income	6,759	16,988	-	23,747
Interest income on financial leases	-	15,166	-	15,166
Interest income on loans and advances to banks	-	100	-	100
Other operating income	-	-	-	-
Total interest and fee income	**15,591**	**125,962**	**-**	**141,553**
Interest expense on deposits	(391,449)	(136,769)	(48)	(528,266)
Interest expense on funds borrowed	(28,558)	(69,011)	-	(97,569)
Other operating expense	(1,101)	(11,892)	-	(12,993)
Fee and commission expense	-	(109)	-	(109)
Total interest and fee expense	**(421,108)**	**(217,781)**	**(48)**	**(638,937)**

(1) Other consists of entities with joint control or significant influence over entities, associates and joint ventures in which they are a joint-venturer or related parties.

Salaries and other benefits paid to the Group's key management approximately amount to TL 37,552 as of June 30, 2016 (June 30, 2015 - TL 33,356).

A significant part of the related party balances and transactions are with related parties other than the parent or associate or joint venture; mainly comprising Koç Group and UCG entities.

25. Subsequent events

None.