PASHA YATIRIM BANKASI A.Ş.

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

pwc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Pasha Yatırım Bankası A.Ş.

1. We have audited the accompanying financial statements of Pasha Yatırım Bankası A.Ş. ("the Bank") which comprise the balance sheet as of 31 December 2015 and statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. a member of PricewaterhouseCoopers
BJK Plaza, Süleyman Seba Cad. No:48 B Blok Kat:9 Akaretler Beşiktaş 34357 İstanbul - Turkey
www.pwc.com/tr *Telephone: +90 (212) 326 6060, Facsimile: +90 (212) 326 6050*

Opinion

4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pasha Yatırım Bankası A.Ş. as of 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Talar Gül, SMMM
Partner

Istanbul, 8 March 2016

PASHA YATIRIM BANKASI A.Ş.

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

CONTENTS **PAGE**

PASHA YATIRIM BANKASI A.Ş.

BALANCE SHEET AS AT 31 DECEMBER 2015
(Amounts are expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	10	48,248	1,098
Balances with Central Bank	10	11,772	132
Financial assets at fair value through profit and loss	12	604	-
Loans and advances to customers	11	243,614	50,814
Available for sale financial assets	12	9,619	1,764
Plant, Property and equipment	14	504	292
Intangible assets	15	468	191
Deferred tax assets	18	1,053	3,302
Other assets	13	4,819	3,010
Total assets		**320,701**	**60,603**
LIABILITIES			
Amounts due to credit institutions	16	71,311	6,594
Financial liabilities at fair value through profit and loss	12	48	-
Taxes payable		482	211
Other liabilities	19	15,710	5,489
- Other financial liabilities		*1,114*	*135*
- Other non-financial other liabilities		*14,596*	*5,354*
Employee benefits	19	1,324	209
Provisions		308	127
Other money market deposits	17	-	1,100
Total liabilities		**89,183**	**13,730**
EQUITY			
Share capital	20	255,000	80,000
Legal reserves	20	324	324
Accumulated losses (-)		(23,716)	(33,446)
Available for sale revaluation fund		(90)	(5)
Total equity		**231,518**	**46,873**
Total liabilities and equity		**320,701**	**60,603**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Notes	1 January - 31 December 2015	1 January - 31 December 2014
Interest income	**7**	**26,183**	**5,546**
- Loans to customers		*17,647*	*4,761*
- Loans to banks		*6,697*	*432*
- Investment securities available-for sale		*1,252*	*187*
- Interest income on money market placements		*587*	*166*
Interest expense (-)	**7**	**(1,163)**	**(205)**
- Amounts due to banks		*(768)*	*(102)*
- Interest expense on money market deposits		*(269)*	*(67)*
- Other interest expenses		*(126)*	*(36)*
Net interest income		**25,020**	**5,341**
Fee and commission income	8	579	108
Fee and commission expense (-)	8	(275)	(63)
Net fee and commission income		**304**	**45**
Other operating income			
Net gains from foreign currencies		2,794	178
Net losses from trading securities (-)		(1,132)	(1)
Net trading loss (-)		(460)	-
Other		40	58
Total other operating income		**1,242**	**235**
Personnel expenses (-)	9	(7,025)	(4,206)
Depreciation and amortisation (-)	9	(275)	(171)
Incurred loan losses (-)	9	(1,662)	(173)
General administrative expenses (-)	9	(5,603)	(3,239)
Profit from operating activities before income tax		**12,001**	**(2,168)**
Income tax expense		-	-
Deferred tax (expense)/income	18	(2,271)	365
Net profit/(loss) for the year From continuing operations		**9,730**	**(1,803)**
Other comprehensive loss			
Items that are or may be reclassified subsequently to profit of loss		**(85)**	**(5)**
Unrealized (losses) on available-for-sale investments, net of tax		(107)	(6)
Income tax on other comprehensive income		22	1
Total comprehensive income/(loss) for the year		**9,645**	**(1,808)**

The notes on page 5 to 48 are an integral part of these financial statements.

PASHA YATIRIM BANKASI A.Ş.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Share capital	Adjustment to share capital	Legal reserve	Retained earnings	Unrealized losses on available for sale - investments, net of tax	Total equity
Balance at 1 January 2014	**80,000**	**-**	**324**	**(31,643)**	**-**	**48,681**
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(5)	(5)
Total other comprehensive income for the year	-	-	-	(1,803)	-	(1,803)
Balance at 31 December 2014	**80,000**	**-**	**324**	**(33,446)**	**(5)**	**46,873**
Balance at 1 January 2015	**80,000**	**-**	**324**	**(33,446)**	**(5)**	**46,873**
Net change in fair value of available-for-sale financial assets, net of tax	-	-	-	-	(85)	(85)
Cash injection	175,000	-	-	-	-	175,000
Total comprehensive income for the year	-	-	-	9,730	-	9,730
Balance at 31 December 2015	**255,000**	**-**	**324**	**(23,716)**	**(90)**	**231,518**

The notes on page 5 to 48 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Note	1 January - 31 December 2015	1 January - 31 December 2014
Cash flows from operating activities			
Profit/(loss) for the year		9,730	(1,803)
Adjustments for:			
Deferred tax provision		2,271	-
Bonus provision	9	1,025	-
Provision impairment losses on loans	9	1,614	173
Depreciation and amortisation	14, 15	275	109
Change in other provisions		181	-
Employee termination benefits provision	19	74	3
Unused vacation provision	19	16	49
Change in amortised cost of investment securities	12	(26)	-
Net increase in loans and advances to customers (-)		(192,800)	(29,609)
Net increase in funds borrowed		64,717	7,685
Acquisition of available for sale financial assets (-)	12	(11,663)	(3,654)
Change in balances at Central Bank		(11,640)	(132)
Net increase in other liabilities		6,751	4,900
Disposal of available for sale financial assets	12	3,834	2,282
Net (decrease)/increase in other assets		(1,757)	2,133
Net cash (used in) operating activities		**(127,398)**	**(17,864)**
Acquisition of property and equipment (-)	14, 15	(767)	(553)
Issued capital instruments		175,000	-
Net cash provided from financing activities		**174,233**	**(553)**
Net increase/(decrease) in cash and cash equivalents		**46,835**	**(18,417)**
Effect of net foreign exchange difference on cash and cash equivalents		315	65
Cash and cash equivalents at the beginning of the year	**10**	**1,098**	**19,450**
Cash and cash equivalents at the end of the year	**10**	**48,248**	**1,098**

The notes on page 5 to 48 are an integral part of these financial statements.

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

1 ORGANIZATION AND NATURE OF OPERATIONS

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey and has provided services until the year 2015 under the management of different shareholder groups.

With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank. With the decision taken in the extraordinary general assembly meeting of the Bank dated 31 July 2013 and numbered 32, share transfer transaction has been approved. The share transfer from previous parent of the Bank to Aksoy Holding A.Ş. has been completed as at 2 August 2013.

In the extraordinary general assembly meeting of the Bank dated 31 October 2013, it was decided to increase the paid-in capital of the Bank to from TL 37,000 to TL 39,000. The paid-in capital of the Bank was increased to 39,000 TL in accordance with the BRSA's approval as at 13 November 2013.

In the extraordinary general assembly meeting of the Bank dated 21 November 2013, it was decided to increase the paid-in capital of the Bank to from TL 39,000 to TL 80,000. The paid-in capital of the Bank was increased to 80,000 TL in accordance with the BRSA's approval as at 29 November 2013.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795,121 of the Bank's capital and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the Acquisition were approved by the BRSA's decision dated 26 December 2014. And numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as at 25 February 2015.

Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "Pasha Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PashaYatırım Bankası A.Ş." registered on 2 March 2016 and announced on Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773.

Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing Pasha Bank OJSC shares from %79,9196 to %99,9196 has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

The partnership structure of the Bank as of 31 December2015, is stated below:

Shareholders	Pain in capital TL	Share percentages %
PASHA Bank OJSC	254,795	99,91
Other	205	0.09
Total	**255,000**	**100.00**

2 BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Standards Interpretation Committee (“IFRSIC”).

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

The financial statements were authorised for issue by the Board of Directors on 22 February 2016.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Financial instruments classified as available for sale

c) Functional and presentation currency

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

d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in *Note 5*.

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Bank entity.

Foreign currency transactions

Transactions in foreign currencies are recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date with the resulting exchange differences recognised in the statement of comprehensive income.

Foreign currency translation rates used by the Bank as of 31 December 2015 and 2014 are as follows:

	EUR / TL	**USD / TL**
31 December 2015	3.1838	2.9181
31 December 2014	2.8272	2.3269

Financial instruments

i) Classification

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

Financial assets at fair value through profit or loss (within the category as; held for trading or designated at fair value through profit or loss) and trading liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and trading liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its subsidiary provide money, goods and services directly to a debtor with no intention of trading the receivable.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain debt investments.

Available-for-sale assets are financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Recognition

The Bank initially recognizes loans and advances, deposits and debt securities issued on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

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

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

iv) Fair value measurement principles

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

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading assets are recognised in the statement of profit or loss as net gain/(loss) on trading securities.

Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income. Interest earned while holding available-for-sale securities or held to maturity assets is reported as interest income.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, amounts due from Turkish Central Bank, excluding obligatory reserves, and amounts due from credit institutions with no maturity and less than 90 days of the date of origination and that are free from contractual encumbrances.

Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and trading assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised on the day they are transferred by the Bank.

Sales and repurchase agreements

The Bank enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ("repos"), continue to be recognised in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed rate at a specified future date ("reverse repos") are not recognised in the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in loan and advances to banks. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

Financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or bank of financial assets is impaired. Objective evidence that a financial asset or bank of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(a) Significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;

(c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a bank of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the bank, including:

   i. adverse changes in the payment status of borrowers; or

   ii. national or local economic conditions that correlate with defaults on the assets in the bank of financial assets.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in statement of comprehensive income.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditures that are directly attributable to the acquisition of the assets.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Property and Equipment	**Useful life**
Furniture, fixtures and vehicles	3 - 10 years

Expenditures incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to statement of comprehensive income in the year that costs are incurred. Expenditures incurred that have resulted in an increase in which the future economic benefits expected from the use of property and equipment is capitalised as an additional cost of property and equipment.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangibles

The Bank intangible assets consist of software.

Intangible assets are initially recorded at their costs in compliance with the IAS 38 - *Intangible Assets*.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The useful life of software is determined as 5 years.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the IAS 36 – *Impairment of Assets* and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Assets held for sale

An asset that is classified as held for sale (or to be discarded fixed assets) is measured with its book value or cost deducted fair value, depending on the lower one. An asset to be classified asset held for sale, particular asset (or to be discarded fixed assets) should be similar to these types of assets and should be able to be sold immediately with commonly accepted terms and conditions. Asset should be marketed in line with its fair value. For selling probability to be high, relevant management level should plan the sale and should finalize the plan by determining the buyers.

Leases

a. Bank is the lessee

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

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

Operating leases: Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to a period of notice. Related payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Bank is the lesser

Finance leases: When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance lease receivables are included in loans and advances to customers.

Operating leases: Assets leased out under operating leases are included in the balance sheet based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Interest income and expense

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

Interest income is suspended when loans are impaired and is excluded from interest income until received.

Fees and commissions income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognised rate apply over the period service is provided.

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

Net trading Income

Net gain on trading and investment securities includes gains and losses arising from disposals and changes in the fair value of trading assets and financial assets available-for-sale.

Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for their customers and government entities are not included in the accompanying balance sheets, since such items are not the assets of the Bank.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserve for employee severance indemnity

Reserve for employee termination benefits

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 1 January 2016 is TL 4,093 (full TL) (1 January 2015: TL 3,438.22 (full TL)).

The Bank reserved for employee severance indemnities in the accompanying financial statements using actuarial method in compliance with the IAS 19 - *Employee Benefits*.

As at 31 December 2015 and 2014, the major actuarial assumptions used in the calculation of the total liability are as follows:

The Bank	**Current Period**	**Prior Period**
Discount Rate (%)	3.49	2.50
Expected Rate of Salary/Limit Increase (%)	6.00	5.00
Estimated Employee Turnover Rate (%)	9.70	7.60

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19 - *Employee Benefits* in the accompanying financial statements.

Income taxes

Corporate tax

The Bank is subject to tax laws and legislation effective in Turkey.

Many clauses of Corporate Tax Law No. 5520 ("Tax Law") which are valid starting from 1 January 2006, were taken into effect after being published in the Official Gazette dated 21 September 2006 No. 26205. According to the Tax Law, the corporate tax rate in Turkey is payable at the rate of 20% since 1 January 2006. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (such as capital gains derived from the sale of equity investments) and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of 25th of the fourth month following the close of the accounting period to which they relate. Tax declarations and related accounting entries can be investigated by tax authorities for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Deferred tax

The Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12"). In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

Income taxes payable are calculated based in accordance with the Turkish tax legislation (Note 18). Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods. The Company has accumulated tax losses from prior years. The Bank believes that these carry forward tax losses are utilizable (Note 18).

Transfer Pricing Regulations

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the reporting date when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions

A provision is recognised when, and only when, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

Financial guarantees

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

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

Contingencies

Contingent liabilities are not recognised in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. If they are not required to be recognised, they are disclosed. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent events

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

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented only in respect of the Bank's business segments because of the Bank is operating geographically only in Turkey.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related party transactions

Related parties include entities, which the Bank has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, their close relatives, companies owned or controlled by them and companies over which they can influence the financial and operating policies.

Amendments in standards and interpretations

The Bank adopted the standards, amendments and interpretations published by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") and which are mandatory for the accounting periods beginning on or after
1 January 2014 which are related to the Company's operations.

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Standards, amendments and interpretations effective after 1 January 2016 (Continued)

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

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

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

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

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

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

4 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Bank's risk approach is to achieve sound and sustainable low risk profile on basis, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, market risk, liquidity risk, currency risk and operational risk. The Bank's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardised credit risk management

4 FINANCIAL RISK MANAGEMENT (Continued)

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate its currency, interest rate and maturity positions that might create liquidity or market risk to Bank. Additionally, in order to minimize the market risk, marketable securities portfolio is limited proportional to the total assets.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate). In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits. All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

4 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk

The Bank, for the loans to be granted to a single borrower or Bank to be applied in risk limits are based on the regulations of the Banking Law. In order to avoid sectorial concentration, limits have been defined and adherence to limits is monitored on a transaction basis.

Daily loan and securities transactions, adherence to limits and concentration is monitored and reported by the risk management unit. In addition, the value of securities are monitored and credit risk compliance with the limits of the operations, marketing and internal control units are monitored by transaction basis.

Loans and other receivables are subjected to re-evaluation at least once a year by the credit allocation unit, borrower and transaction rating models are used for this purpose.

Lending activities, including the documents received from business units independently of the internal control unit is subject to detective control.

The Bank does not have positions of forward, option and similar agreements.

When considered within the financial activities of other financial institutions, the Bank as an active participant in the national and international banking market is not exposed to a significant credit risk. With an increase in credit risk amount, use of mentioned derivative products can come up.

The Bank doesn't have any reimbursed non-cash loans, if any are present, they will be weighted in the same risk weight as loans that are overdue.

The Bank has no rescheduled or restructured loans. If any, it is planned to be followed by monthly reports of risk management unit.

Separation of credit risk is performed with debtor rating system and transaction rating system. Maturity based risk separation is not performed.

Cash and non-cash loans are put in the same category with the loans that have not been paid at maturity. They are being classified based on collaterals taken and transferred to legal follow-up accounts.

When considered within the financial activities of other financial institutions, the Bank as an active participant in the national and international banking market is not exposed to a significant credit risk

As at 31 December 2015 and 2014 the rating distribution of Bank's financial instruments is as follows:

Available for sale Securities at fair value	**Rating Agency**	**Government bonds**	**Total**
Between Aa3 Aa1	Moody's	9,619	9,619

As at 31 December 2014 the rating distribution of Bank's financial instruments is as follows:

Available for sale Securities at fair value	**Rating Agency**	**Government bonds**	**Total**
Between Aa3 Aa1	Moody's	1,764	1,764

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

4 FINANCIAL RISK MANAGEMENT (Continued)

As at 31 December 2015 and 2014 sectoral concentrations for cash loans of the Bank are as follows:

	31 December 2015				31 December 2014			
	TL	**(%)**	**FC**	**(%)**	**TL**	**(%)**	**FC**	**(%)**
Services	**117,177**	**62.98**	**-**	**-**	**37,605**	**79**	**-**	**-**
- Financial institutions	117,177	-	-	-	37,605		-	-
Manufacturing	**29,323**	**15.76**	**53,180**	**92**	**7,212**	**7**	**-**	
- Electric, gas and water	7,387	-	-	-	1,618	3	-	-
- Production	22,157	-	-	-	6,094	6	-	-
Construction	**14,057**	**7.56**	**4,377**	**0.3**	**1,003**	**2**	**3,490**	**100**
Services	**2,000**	**1.07**	**-**	**-**	**1,004**	**2**	**-**	**-**
- Health and social services	2,000	-	-	-	1,004	-	-	-
Real estate and & Rental services	**23,500**	**12.63**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**186,057**		**57,557**		**47,793**		**3,490**	

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Regional	**31 December 2015**	**31 December 2014**
Turkey	243,614	50,814
Other	-	-
Total loans and advances to customers	**243,614**	**50,814**

There is not any past due but not impaired loans as of 31 December 2015 and 2014.

Neither past due nor impaired loans and past due loans.

	31 December 2015	**31 December 2014**
Grade 1: Low risk loans and receivables	243,614	50,814
Grade 2: Close monitoring loans and receivables	-	-
Total	**243,614**	**50,814**
Restructured or rescheduled loans	-	-
Total	**243,614**	**50,814**

Liquidity risk

Liquidity risk is the risk arising from not having adequate cash or not having adequate cash inflows to fund cash outflows on time due to the imbalance of cash flows.

Treasury Department, manages liquidity of the Bank on a daily basis, and informs the asset-liability committee every week about the Bank's liquidity level. Planning the liquidity management for weekly, monthly, yearly periods, taking the necessary measures and informing the senior management about these is the responsibility of the treasury.

The Bank forms its assets and liabilities in balance in order not to create a negative space in the cumulative basis in the maturity periods.

The Bank Financial Planning & Controlling Unit monitors compliance with policies, limits and indicators in relation to liquidity.

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Exposure to Liquidity Risk

	Primary Maturity Split (Weekly)		Secondary Maturity Split (Monthly)	
Current Period	**FC**	**FC+LC**	**FC**	**FC+LC**
Average	4,008	3,178	2,157	2,748
Highest (%)	22,221	24,685	54,473	41,234
Lowest (%)	120	390	82	382

	Primary Maturity Split (Weekly)		Secondary Maturity Split (Monthly)	
Prior Period	**FC**	**FC+LC**	**FC**	**FC+LC**
Average	5,531	1,489	5,697	1,963
Highest (%)	31,527	7,206	41,911	8,164
Lowest (%)	88	288	83	296

31 December 2015	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**
Amounts due to financial intuitions	71,311	74,348	-	9,107	-	21,401	43,840
Financial liabilities through profit and loss	48	48	-	48	-	-	-
Other liabilities	15,710	15,846		14,700	313	833	-
- Other financial liabilities	1,114	1,250		104	313	833	-
- Other non-financial liabilities	14,596	14,596	-	14,596	-	-	-
Total	**87,069**	**90,242**	**-**	**23,855**	**313**	**22,234**	**43,840**

31 December 2014	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**
Funds borrowed	6,594	6,628	-	-	6,628	-	-
Other money market deposits	1,100	1,100	-	1,100	-	-	-
Other liabilities	5,489	5,489		5,489	-	-	-
-Other financial liabilities	135	135		104	-	-	-
- Other non-financial liabilities	5,354	5,354	-	5,354	-	-	-
Other money markets	1,100	1,100	-	1,100	-	-	-
Total	**14,283**	**14,317**	**-**	**7,689**	**6,628**	**-**	**-**

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

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Market risk

Market risk is followed under two headings: market risk arising from trading activities and market risk arising from banking transactions. The basic principle of market risk management is creating a compliant asset / liability structure and providing protection by averting differences with derivative instruments when necessary.

Management of market risk

By the Board of Directors, market risk limits introduced by the minimization of the risks involved were targeted. Defined risk limits are reviewed by the Board of the Directors in 3 month period and updated if necessary. "Standard method" is used in the measurement of market risk in the extent of capital adequacy ratio. Value of the securities portfolio at risk is monitored and is reported to senior management on a monthly basis.

Exposure to market risk - trading portfolios

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

The below table represents the details of the market risk calculation in accordance with the “Regulation Regarding Measurement and Evaluation of Banks’ Capital Adequacy Ratio”, section three “Calculation of Market Risk with Standard Method”.

31 December 2015	**Average**	**Highest**	**Lowest**
Interest rate risk	21	74	-
Currency risk	116	836	-
Counterparty risk	8	16	-
Total value at risk	**144**	**926**	**-**

31 December 2014	**Average**	**Highest**	**Lowest**
Interest rate risk	-	-	-
Currency risk	95	287	-
Counterparty risk	-	2	-
Total value at risk	**95**	**289**	**-**

Currency risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to the exchange rate movements in the market.

The Bank takes precautions to keep the currency risk at a minimum level. However, the currency risk that may arise has been calculated with the Standard Method on a weekly and monthly basis, and the results are reported to the BRSA and the Bank’s senior management. In this regard, currency risk is closely monitored. Currency risk is taken into consideration as a part of the general market risk within the calculation of the Capital Adequacy Ratio.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2015, the Bank's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	EUR	**USD**	**AZN**	**Total**
Cash balances with central banks	-	11,875	-	11,875
Cash and cash equivalents	289	10,896	10,144	21,329
Loans and advances to customers	14,766	66,637	-	81,403
Other assets	-	37	-	37
Total foreign currency assets	**15,055**	**89,445**	**10,144**	**114,644**
Amounts due to credit institutions	(6,408)	(64,903)	-	(71,311)
Other liabilities	-	(10,269)	-	(10,269)
Total foreign currency liabilities on balance sheet*	**(6,408)**	**(75,172)**	**-**	**(81,580)**
Off Balance Sheet**	(8,438)	(18,384)	-	(26,822)
Net foreign currency position	**209**	**(4,111)**	**10,144**	**6,242**

**Includes forward and swap transactions
*B/S: Balance sheet

As of 31 December 2014, the Bank's foreign currency assets and liabilities may be analysed as follows (TL equivalents):

	EUR	**USD**	**Other Currencies**	**Total**
Cash and cash equivalents	6	1,086	-	1,092
Loans and advances to customers	-	4,655	-	4,655
Other assets	-	29	-	29
Total foreign currency assets	**6**	**5,770**	**-**	**5,776**
Funds borrowed		(5,593)	-	(5,596)
Total foreign currency liabilities	**(1)**	**(5,595)**	**-**	**(5,596)**
Net foreign currency position	**5**	**175**	**-**	**180**

The possible increases or decreases in the shareholders' equity and the profit/loss as per an assumption of devaluation and appreciation by 10% of TL against currencies mentioned below as of 31 December 2015 and 2014 are presented in the below table. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Assuming 10% depreciation of TL;

	31 December 2015		**31 December 2014**	
	Income statement	**Shareholders' equity (*)**	**Income statement**	**Shareholders' equity (*)**
US Dollar	(411)	(411)	(18)	(18)
Euro	21	21	-	-
AZN	1,014	1,014	-	-
Total	**624**	**624**	**(18)**	**(18)**

(*) The effect on shareholders' equity also includes profit/loss effects.

Assuming 10% appreciation of TL;

	31 December 2015		**31 December 2014**	
	Income statement	**Shareholders' equity (*)**	**Income statement**	**Shareholders' equity (*)**
US Dollar	411	411	(18)	(18)
Euro	(21)	(21)	-	-
AZN	(1,014)	(1,014)	-	-
Total	**(624)**	**(624)**	**(18)**	**(18)**

(*) The effect on shareholders' equity also includes profit/loss effects.

Interest rate risk

Cash flow and fair value interest rate risk

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

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

4 FINANCIAL RISK MANAGEMENT (Continued)

As at 31 December 2015 exposure to interest rate risk is as follows:

Current Period	Non-interest bearing	Up to 3 Months	3-12 Months	1-5 Years	5 Years and over	Total
Assets						
Cash and cash equivalents	48,248	-	-	-	-	48,248
Balances with Central Bank	-	11,772	-	-	-	11,772
Financial assets through profit and loss	-	-	604	-	-	604
Loans and advances to customers	-	145,895	40,360	13,689	43,670	243,614
Available-for sale financial assets		256	9,363	-	-	9,619
Plant, property and equipment	504	-	-	-	-	504
Intangible assets	468	-	-	-	-	468
Deferred tax asset	1,053	-	-	-	-	1,053
Other assets	4,819	-	-	-	-	4,819
Total assets	**55,092**	**157,923**	**50,327**	**13,689**	**43,670**	**320,701**
Liabilities						
Amounts due to credit institutions	-	9,125	18,346	43,840	-	71,311
Financial liabilities at fair value through profit and loss	-	-	48	-	-	48
Employee benefits	1,324	-	-	-	-	1,324
Taxes payable	-	482	-	-	-	482
Provisions	-	-	308	-	-	308
Other liabilities	14,596	1,114	-	-	-	15,710
- Other financial liabilities		1,114	-	-	-	1,114
- Other Non-financial liabilities	14,596	-	-	-	-	14,596
Total liabilities	**15,920**	**10,721**	**18,702**	**43,840**	**-**	**89,183**
Total interest sensitivity gap	**39,172**	**147,202**	**31,625**	**(30,151)**	**43,670**	**231,518**

As at 31 December 2014 exposure to interest rate risk - non-trading portfolios are as follows:

Prior Period	Non-interest bearing	1-3 Months	3-12 Months	1-5 Years	5 Years and over	Total
Assets						
Cash and cash equivalents	-	1,230	-	-	-	1,230
Loans and advances to banks	-	50,005	809	-	-	50,814
Investment securities	-	1,764	-	-	-	1,764
Plant, property and equipment	292	-	-	-	-	292
Intangible assets	191	-	-	-	-	191
Deferred tax asset	3,302	-	-	-	-	3,302
Other assets	-	-	3,010	-		3,010
Total assets	**3,785**	**52,999**	**3,819**	**-**	**-**	**60,603**
Liabilities						
Due to credit institutions	-	6,594	-	-	-	6,594
Other money market deposits		1,100	-	-	-	1,100
Current tax payable	-	211	-	-	-	211
Employee benefits	-	-	-	209	-	209
Other liabilities	-	5,517	99	-	-	5,616
Total liabilities	**-**	**13,422**	**99**	**209**	**-**	**13,730**
Total interest sensitivity gap	**3,785**	**39,577**	**3,720**	**209**	**-**	**46,873**

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

4 FINANCIAL RISK MANAGEMENT (Continued)

The following table indicates the average interest rates by major currencies for the major accounts of the statement of financial position for the years 2015 and 2014:

	EUR (%)	USD (%)	TL (%)
31 December 2015			
Balances with Central Bank	-	0.90	5.00
Cash and cash equivalents	-	0.99	10.60
Loans and advances to customers	4.80	4.82	12.28
Available-for sale financial assets	-	-	8.80
Funds borrowed	2.00	3.25	10.75
Other money market deposits	-	-	9.79

	EUR (%)	USD (%)	TL (%)
31 December 2014			
Cash and cash equivalents	-	0.12	10.59
Loans and advances to customers	-	5.46	12.25
Investment securities	-	-	10.54
Funds borrowed	-	0.79	10.11
Other money market deposits	-	-	9.95

Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled for the Bank's contractual undiscounted repayment obligations.

	31 December 2015			31 December 2014		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents and	48,248	-	48,248	1,098	-	1,098
Balances with Central Bank	11,772	-	11,772	132	-	132
Loans and advances to customers	186,255	57,359	243,614	50,814	-	50,814
Financial assets at fair value through profit and loss	604	-	604	-	-	-
Available for sale financial assets	9,619	-	9,619	1,764	-	1,764
Plant property and equipment	-	504	504	-	292	292
Intangible assets	-	468	468	-	191	191
Deferred tax assets	-	1,053	1,053	-	3,302	3,302
Other assets	4,819	-	4,819	3,010	-	3,010
Total assets	**261,317**	**59,384**	**320,701**	**56,818**	**3,785**	**60,603**
Amounts due to credit institutions	27,471	43,840	71,311	6,594	-	6,594
Financial liabilities at fair value through profit and loss	48	-	48	-	-	-
Current tax liability	482	-	482	211	-	211
Employee benefits	1,090	234	1,324	209	-	209
Provisions	308	-	308	-	-	-
Other money market deposits	-	-	-	1,100	-	1,100
Other liabilities and provision	15,710	-	15,710	5,616	-	5,616
Financial liabilities	1,114	-	1,114	135	-	135
Non financial liabilities	14,596	-	14,596	5,354	-	5,354
Total liabilities	**45,109**	**44,074**	**89,183**	**13,730**	**-**	**13,730**

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

4 FINANCIAL RISK MANAGEMENT (Continued)

Capital adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Bank's capital adequacy ratio is % 91.75 (31 December 2014: % 135.43) in accordance with the related Communiqué as of 31 December 2015. The Bank has complied with the capital requirements throughout the year and previous year.

	31 December 2015	31 December 2014
Capital requirement for Credit Risk (CRCR)	19,049	2,495
Capital requirement for Market Risk (CRMR)	867	-
Capital requirement for Operational Risk (CROR)	355	95
Common equity tier 1 capital	**20,271**	**2,590**
Tier 1 capital	229,810	46,878
Tier 2 capital	2,670	468
Deductions from capital (-)	-	-
Total capital	**232,480**	**47,346**
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	91.75	2,495
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	90.75	-
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*10	90.76	95

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

The credit quality of the loans and advances to customers is managed by the Bank internal credit. The table below shows the credit quality by class of asset loan as advances to customers.

The credit quality of the loans and advances to customers is managed by the Bank internal credit. The table below shows the credit quality by class of asset loan an advances to customers. Facility rating between AAA-BBB loans classifies as High Grade, BB-B facility rating loans are classified as Standard.

	31 December 2015			31 December 2014		
	High grade	Standard grade	Impairment provision	Available for sale	Standard grade	Impairment provision
Loans and advances to customers	87,648	158,096	(2,130)	12,057	39,225	(468)
Total	**87,648**	**158,096**	**(2,130)**	**12,057**	**39,225**	**(468)**

5 USE OF ESTIMATES AND JUDGMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see *Note 4*).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in *Note 3*.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are and to determine the required input parameters, based on historical experience and current economic conditions.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in *Note 3.* For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgments in applying the Bank's accounting policies

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

Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in *Note 3*.

- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in *Note 3*.

- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by *Note 3*.

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

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

The table below shows the carrying and fair values of financial assets and liabilities of the Bank:

	31 December 2015		31 December 2014	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and cash equivalents	48,248	48,248	1,098	1,098
Balances with Central Bank	11,772	11,772	132	132
Available-for sale financial assets	9,619	9,619	1,764	1,764
Loans and advances to customers	243,614	242,691	50,814	50,814
Financial assets at fair value through profit and loss	604	604	-	-
Total financial assets	**313,857**	**312,934**	**53,808**	**53,808**
Liabilities				
Amounts due to credit institutions	71,311	71,311	6,594	6,594
Financial liabilities at fair value Through profit and loss	48	48	-	-
Other financial liabilities	1,114	1,114	135	135
Other money market deposits	-	-	1,100	1,100
Total financial liabilities	**72,473**	**72,473**	**7,829**	**7,829**

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or,
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

Assets measured at fair value:

31 December 2015	Level 1	Level 2	Level 3	Total
Available for sale financial assets	9,619	-	-	9,619
Financial assets at fair value through profit and loss	-	604	-	604
Total	**9,619**	**604**	**-**	**10,223**

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

5 USE OF ESTIMATES AND JUDGMENTS (Continued)

Assets measured at fair value (continued)

31 December 2014	Level 1	Level 2	Level 3	Total
Available for sale financial assets	1,764	-	-	1,764
Total	**1,764**	**-**	**-**	**1,764**

Assets for which fair values are disclosed

31 December 2015	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	48,248	-	-	48,248
Balances with Central Bank	11,772	-	-	11,772
Loans and advances to customers	-	-	243,614	242,691
Total	**60,020**	**-**	**243,614**	**301,788**

31 December 2014	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	1,098	-	-	1,098
Balances with Central Bank	132	-	-	132
Loans and advances to customers	-	-	50,814	50,814
Total	**1,230**	**-**	**50,814**	**52,044**

6 SEGMENT REPORTING

Information on operational segments on 31 December 2015 and 2014 are as follows:

31 December 2015	Corporate banking	Treasury and asset liability management	Total
Total asset	243,434	77,267	320,701
Total liabilities	38,852	50,331	89,183
Net interest income	17,647	7,373	25,020
Net fee and commission income	304	-	304
Other operating segments gain	-	1,242	1,242
Other operating expenses (-)	(1,182)	(13,383)	(14,565)
Profit before tax	**16,769**	**(4,876)**	**12,001**
Tax expense (-)	-	(2,271)	(2,271)
Net profit	**16,769**	**(7,039)**	**9,730**

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

6 SEGMENT REPORTING (Continued)

31 December 2014	Corporate banking	Treasury and asset liability management	Total
Total asset	50,814	9,789	60,603
Total liabilities	2,396	11,334	13,730
Net interest income	4,761	580	5,341
Net fee and commission income/(loss)	80	(34)	46
Other operating segments gain	-	236	236
Other operating expenses (-)	(173)	(7,618)	(7,791)
Loss before tax	**4,668**	**(6,836)**	**(2,168)**
Tax income	-	365	365
Net loss	**4,668**	**(6,471)**	**(1,803)**

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	31 December 2015				31 December 2014			
	The Republic of Turkey	OECD countries	CIS and other non-OECD countries	Total	The Republic of Turkey	OECD countries	CIS and other non-OECD countries	Total
Financial assets			-					
Cash and cash equivalents	24,919	11,095	12,234	**48,248**	1,098	-	-	**1,098**
Balances with Central Bank	11,772	-	-	**11,772**	132	-	-	**132**
Financial assets at fair value through profit and loss	604	-	-	**604**	-	-	-	**-**
Available-for sale financial assets	9,619	-	-	**9,619**	1,764	-	-	**1,764**
Loans and advances to customers	243,614	-	-	**243,614**	50,814	-	-	**50,814**
Plant property and equipment	504	-	-	**504**	292	-	-	**292**
Intangible assets	468	-	-	**468**	191	-	-	**191**
Deferred tax asset	1,053	-	-	**1,053**	3,302	-	-	**3,302**
Other assets	4,819	-	-	**4,819**	3,010	-	-	**3,010**
	297,372	**11,095**	**12,234**	**320,701**	**60,603**	**-**	**-**	**60,603**
Financial liabilities								
Amounts due to credit institutions	1,751	-	69,560	**71,311**	6,594	-	-	**6,594**
Financial liabilities at fair value through profit and loss	48	-	-	**48**	-	-	-	**-**
Current income tax liability	482	-	-	**482**	211	-	-	**211**
Employee benefit	1,324	-	-	**1,324**	209	-	-	**209**
Provision	308	-	-	**308**	127	-	-	**127**
Other financial liabilities	1,114	-	-	**1,114**	135	-	-	**135**
Other non-financial liabilities	14,596	-	-	**14,596**	5,354	-	-	**5,354**
Other money market deposits	-	-	-	-	1,100	-	-	**1,100**
	19,623	**-**	**69,560**	**89,183**	**13,730**	**-**	**-**	**13,730**
Net assets				**214,402**				**36,585**

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

7 NET INTEREST INCOME

	1 January - 31 December 2015	1 January - 31 December 2014
Interest income		
Loans and advances to customers	*17,647*	*4,761*
Loan and advances to banks	*6,697*	*432*
Investment securities available-for sale	*1,252*	*187*
Money market placements	*587*	*166*
	26,183	**5,546**
Interest expense and similar charges		
Amounts due to banks	*(768)*	*(102)*
Money market deposits	*(269)*	*(67)*
Other	*(126)*	*(36)*
	(1,163)	**(205)**
Net interest income	**25,020**	**5,341**

8 NET FEE AND COMMISSION INCOME

	1 January - 31 December 2015	1 January - 31 December 2014
Fee and commission income		
Non-cash loans	270	79
Cash loans	309	29
	579	**108**
Fee and commission expense		
Fees for banking service expense	(275)	(63)
	(275)	**(63)**
Net fee and commission income	**304**	**45**

9 GENERAL ADMINISTRATIVE EXPENSES

	1 January - 31 December 2015	1 January - 31 December 2014
Personnel expenses (-)	7,025	4,206
Depreciation and amortisation expenses (-)	275	171
Incurred loan losses (-)	1,662	173
Other operating expenses (-)	5,603	3,239
	14,565	**7,789**

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

9 GENERAL ADMINISTRATIVE EXPENSES (Continued)

Personnel expenses

Wages and salaries	5,606	3,864
Employee bonus provision expense (Note 19)	1,025	-
Travel allowance	112	10
Change in employee benefit provision	90	80
Other	192	252
	7,025	**4,206**

Other operating expenses	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Rent expenses	1,057	777
IT expenses	1,033	657
Contribution expenses	620	402
Audit fee expense	605	305
Office expenses	591	250
Subscription expenses	496	186
Marketing expenses	280	-
Transportation expenses	167	25
Represented expenses	136	33
Non-tax-deductible expenses	83	20
Insurance expenses	62	34
Operational lease expense	59	289
Repair and maintenance expenses	8	15
Other	406	246
Total	**5,603**	**3,239**

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, balances with banks with original maturity periods of less than three months. As at 31 December 2015 and 2014, cash and cash equivalents presented in the statement of financial position and cash flows are as follows:

	31 December 2015	**31 December 2014**
Cash on hand	11	4
Unrestricted cash with Central Bank	880	-
Banks		
- Demand deposits	*47,357*	*1,094*
Cash and cash equivalents	**48,248**	**1,098**

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

10 CASH AND CASH EQUIVALENTS (Continued)

	31 December 2015	31 December 2014
Restricted balances with the Central Bank (*)	11,772	132
Total	**11,772**	**132**

(*) According to CBRT's "Required Reserves Announcement" numbered 2005/1, for Turkish currency and foreign currency denominated liabilities, reserve requirement amounts held in CBRT. Reserve deposits required by the Central Bank of Turkey are not interest bearing.

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

	31 December 2015	31 December 2014
Cash on hand	11	4
Unrestricted cash with Central Bank	880	-
Banks		
- *Demand deposits*	*47,357*	*1,094*
Total cash and cash equivalents in the statement of financial position	**48,248**	**1,098**

11 LOANS AND ADVANCES TO CUSTOMERS

Outstanding loans and advances to customers are as follows:

	31 December 2015	31 December 2014
Loans and advances to customers	245,744	51,282
- *Loans to financial institutions*	*117,177*	*37,605*
- *Corporate loans*	*128,567*	*13,677*
Total performing loans	**245,744**	**51,282**
Non-performing loans	-	-
Total gross loans	**245,744**	**51,282**
Impairment provision for loans (-)	(2,130)	(468)
- *Collective impairment (-)*	*(2,130)*	*(468)*
- *Individual impairment (-)*	-	-
Loans and advances to customers, net	**243,614**	**50,814**

The Bank generally seeks collateral security comprising real estate and other mortgages of varying ranking, cheques and bills, cash collaterals, personal guarantee of shareholders, and similar items.

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

12 ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS AND INVESTMENT SECURITIES

Investment securities as of 31 December 2015 comprise the following:

	Nominal amount	Carrying value	Effective interest rate (%)	Latest maturity
Available-for-sale financial assets				
Equity instruments:				
- *Turkish government bonds*	*9,500*	*9,619*	*10.80*	*16 November2016*
Total available-for-sale financial assets		**9,619**		

Investment securities as of 31 December 2014 comprise the following:

	Nominal value	Carrying value	Effective interest rate (%)	Latest maturity
Available-for-sale financial assets				
Equity instruments:				
- *Turkish government bonds*	1,193	1,764	10.54	11 February 2015
Total available-for-sale financial assets		**1,764**	**10.54**	

The movement in investment securities is summarised as follows:

	2015			**2014**		
	Available for sale	**Held to maturity**	**Total**	**Available for sale**	**Held to maturity**	**Total**
Openning - 1 January	**1,764**	**-**	**1,764**	**293**	**-**	**293**
Additions	11,663	-	11,663	3,654	-	3,654
Change in amortised costs	26	-	26	99	-	99
Disposals (sale and redemption) (-)	(3,834)	-	(3,834)	(2,282)	-	(2,282)
Closing - 31 December	**9,619**	**-**	**9,619**	**1,764**	-	**1,764**

As of 31 December 2015, the Bank does not have any marketable securities subjected to repurchase transactions (At 31 December 2014: None). As of 31 December 2015, the Bank does not have any amounted security is held on collateral/blocked for guarantee. (At 31 December 2014: None)

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

12 ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS AND INVESTMENT SECURITIES (Continued)

Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying items, such as financial instrument prices, reference rates, commodity prices or indices. Derivative financial instruments used mainly include currency forwards, and currency swaps.

The table below shows the contractual amounts of derivative instruments analysed by the term to maturity. The contractual amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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

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

	31 December 2015		**31 December 2014**	
	Notional amount	**Carrying value**	**Notional amount**	**Carrying value**
Equity and other non-fixed income instruments:				
Currency swaps	63,587	566	-	-
Currency forward	7,629	(10)	-	-
	71,216	**556**	**-**	**-**

As at 31 December 2015 set out below accruals of derivative instruments (31 December 2014: None)

	Assets		**Liabilities**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Currency swaps	604	-	(48)	-
Fair value of derivatives	**604**	**-**	**(48)**	**-**

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

13 OTHER ASSETS

As at 31 December 2015 and 2014 other assets comprised the following items:

	31 December 2015	31 December 2014
Clearing account cheques (Note 19) (*)	4,224	2,698
Prepaid expenses	389	60
Current tax asset	81	38
Given cash guarantee	7	6
BIST collateral debt instruments	6	6
Miscellaneous receivables	-	30
Other assets	112	172
	4,819	**3,010**

(*) Amount consists of collateral cheques received from customers and due as of 31 December 2015 and 31 December 2014

14 PROPERTY AND EQUIPMENT

Movement of the plant, property and equipment is as follows:

	Furniture and fixtures	Total
Opening - 1 January 2015		
Net book value	**292**	**292**
Additions	334	334
Disposals (-)	(3)	(3)
Depreciation charge (Note 9)	(119)	(119)
Closing - 31 December 2015		
Net book value	**504**	**504**
At 31 December 2015		
Cost	1,133	1,133
Accumulated depreciation (-)	(629)	(629)
Net book value	**504**	**504**

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

14 PROPERTY AND EQUIPMENT (Continued)

	Furniture and fixtures	Total
Opening - 1 January 2014		
Net book value	**93**	**93**
Additions	332	332
Disposals (-)	(32)	(32)
Depreciation charge (Note 9)	(101)	(101)
Closing - 31 December 2014		
Net book value	**292**	**292**
Closing - 31 December 2014		
Net book value		
Cost	802	802
Accumulated depreciation	(510)	(510)
Net book value	**292**	**292**

15 INTANGIBLE ASSETS

Intangible assets comprise software purchased and related licenses.

Movement of intangible assets as of 31 December 2015 and 2014 is as follows:

	2015	2014
Opening net book value / 1 January	**191**	**41**
Additions	433	223
Disposals	-	-
Amortization charge (Note 9) (-)	(156)	(73)
Closing net book value /31 December	**468**	**191**
At 31 December 2015		
Cost	1,368	935
Accumulated amortization (-)	(900)	(744)
Net book value	**468**	**191**

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

16 AMOUNTS DUE TO CREDIT INSTITUTIONS

As at 31 December 2015 and 2014 funds borrowed comprised the following:

	31 December 2015	31 December 2014
Short term		
Fixed interest-TL	-	1,000
Fixed interest-FC	30,211	5,593
Medium and long term		
Fixed interest-TL	-	-
Fixed interest-FC	41,100	-
Total	**71,311**	**6,594**

The average interest rates for funds borrowed are ranging between 3.25 % and 7.25 % for funds borrowed.

17 OTHER MONEY MARKET DEPOSITS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

	31 December 2015		31 December 2014	
	Fair value of underlying assets	Carrying Value of corresponding liabilities	Fair value of underlying assets	Carrying Value of correspondingg liabilitieses
Financial assets at fair value through Profit or loss - Trading assets	-	-	1,100	1,100
	-	**-**	**1,100**	**1,100**

Accrued interest on obligations under repurchase agreements are not found as of 31 December 2015 (31 December 2014: 279).

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

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

18 TAXATION

The total provision for taxes on income is different than the amount computed by applying the statutory tax rate to profit before provision for taxes on income as shown in the following reconciliation tables for the years ended 31 December 2015 and 2014:

	31 December 2015	31 December 2014
Profit/(loss) before taxation	12,001	(1,995)
Theoretical tax expense with 20% tax rate (-)	(2,400)	399
income exempt/(Non-deductible expenses), net	129	(34)
Income tax (expense)/income	**(2,271)**	**365**

Current year taxation expense comprises the following:

	31 December 2015	31 December 2014
Current tax expense	-	-
Deferred tax (expense)/income	(2,271)	365
Deferred tax income under other comprehensive income	22	1
	(2,249)	**366**

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

Deferred tax assets	31 December 2015	31 December 2014
General loan loss provision	426	-
Financial losses	247	3,212
Reserve for employee benefits	264	42
Miscellaneous expense provisions	148	42
Amortisation and depreciation differences	17	10
Other	62	106
Total deferred tax assets	**1,164**	**3,312**
Deferred tax liabilities		
Valuation differences on financial investments	(111)	(2)
Total deferred tax liabilities	**(111)**	**(10)**
Deferred tax assets, net	**1,053**	**3,302**

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

18 TAXATION (Continued)

	Allowable financial losses	Last date to benefit
2014	1,235	31 December 2019
	1,235	

The movements in the deferred tax asset for the year ended 31 December 2015 and 2014 are as follow:

	2015	2014
Openning - 1 January	**3,302**	**2,937**
Recognised in profit or loss statement	(2,271)	365
Recognised in other comprehensive income	22	-
Closing - 31 December	**1,053**	**3,302**

19 OTHER LIABILITIES, OTHER PROVISIONS AND EMPLOYEE BENEFITS

Other Non-Financial liabilities

	31 December 2015	31 December 2014
Borrower funds	10,272	2,393
Clearing account cheques (*) (Note 13)	4,224	2,698
Miscellaneous payables	100	263
Other provisions	308	127
	14,596	**5,354**

(*) Amount consists of collateral cheques received from customers and submitted to settlement and custody bank and due as of 31 December 2015 and 31 December 2014

Other financial liabilities

	31 December 2015	31 December 2014
Financial lease liabilities	1,114	135
	1,114	**135**

Employee benefits

	31 December 2015	31 December 2014
Bonus provision	1,025	-
Employee termination benefits provision	234	160
Unused vacation provision	65	49
	1,324	**209**

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

19 OTHER LIABILITIES, OTHER PROVISIONS AND EMPLOYEE BENEFITS (Continued)

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

	2015	**2014**
Opening - 1 January	160	157
Interest and Service cost	74	3
Closing - 31 December	**234**	**160**

Movement in unused vacation liability provision during the year is as follows:

	31 December 2015	**31 December 2014**
Opening - 1 January	49	-
Current year provision/(cancellation), net	16	49
Closing - 31 December	**65**	**49**

20 SHARE CAPITAL AND LEGAL RESERVES

Share capital:

As of 31 December 2015, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 255,000 (2014: TL 80,000), comprising 255 million (Full TL) registered shares of one TL 0.01 each.

As of 31 December 2015 the Bank's historical subscribed and issued share capital was TL 255,000 (31 December 2014: TL 80,000).

As of 31 December 2015 and 2014 the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2015		**31 December 2014**	
	Amount	**%**	**Amount**	**%**
PASHA Bank OJSC	254,795	99.9	-	-
Aksoy Holding A.Ş.	-	-	79,795	99.74
Others	205	0.1	205	0.26
Total	**255,000**		**80,000**	
Adjustment to share capital	-		-	
Total	**255,000**		**80,000**	

20 SHARE CAPITAL AND LEGAL RESERVES (Continued)

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The statutory legal reserve is 324 as of 31 December 2015 and 2014.

With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank. With the decision taken in the extraordinary general assembly meeting of the Bank dated 31 July 2013 and numbered 32, share transfer transaction has been approved. The share transfer from previous parent of the Bank to Aksoy Holding A.Ş. has been completed as at 2 August 2013.

In the extraordinary general assembly meeting of the Bank dated 31 October 2013, it was decided to increase the paid-in capital of the Bank to from TL 37,000 to TL 39,000. The paid-in capital of the Bank was increased to 39,000 TL in accordance with the BRSA's approval as at 13 November 2013.

In the extraordinary general assembly meeting of the Bank dated 21 November 2013, it was decided to increase the paid-in capital of the Bank to from TL 39,000 to TL 80,000. The paid-in capital of the Bank was increased to 80,000 TL in accordance with the BRSA's approval as at 29 November 2013.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795,121 of the Bank's capital and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the Acquisition are approved by the BRSA's decision dated 26 December 2014. And numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as at 25 February 2015.

Paid-in capital increase from TL 175,000 to TL 255,00, approval of the share transfer and changing the Bank's title as "Pasha Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PashaYatırım Bankası A.Ş. registered on 2 March 2016 and announced on Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773.

Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing Pasha Bank OJSC shares from %79,9196 to %99,9196 has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

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

21 COMMITMENTS AND CONTINGENT LIABILITIES

Letters of guarantee, letters of credit, acceptances and other credit related commitments

Commitments and contingent liabilities arising in the ordinary course of business comprised the following principal items:

	31 December 2015	**31 December 2014**
Guarantee notes	8,754	38,371
Letter of credit	22,501	774
Letter of guarantee	95,740	6,813
Total non-cash loans	**126,995**	**45,958**
Other commitments	-	10
Total	**126,995**	**45,968**

Outstanding letters of guarantee of the Bank are presented based on economic sectors as follows:

	31 December 2015	**31 December 2014**
Wholesale and retail	36,777	2,090
Restaurant business	5,112	4,247
Financial Institutions	38,688	-
Others	15,163	476
Total	**95,740**	**6,813**

Litigation

The Bank has provided TL 193 (31 December 2014: TL 83) of provision for the disputed 6 legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

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

22 RELATED PARTIES

Cash loans

The cash loans provided to Aksoy Holding A.Ş. is presented below.

	2015	2014
Openning -1 January	-	
Addition	8,082	-
Closing - 31 December	**8,082**	**-**

Non Cash loans

	2015		2014	
	Pasha Bank OJSC	Aksoy Holding A.Ş.	Pasha Bank Amount	Aksoy Holding A.Ş.
Openning - 1 January	-	30,227	-	-
Addition	22,475	-	-	30,227
Disposal (-)	-	(30,227)	-	-
Closing - 31 December	**22,475**	**-**	**-**	**30,227**

Interest income and commission income

	1 January - 31 December 2015	1 January - 31 December 2014
Aksoy Holding A.Ş.	114	5
PASHA Bank OJSC	98	-
JSC PASHA Bank Georgia	18	-
	230	**5**

23 EARNINGS PER SHARE

For the periods ended 31 December, the calculation of earnings per share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding as follows:

	31 December 2015	31 December 2014
Denominator:		
Weighted average number of shares	161,111	80,000
Numerator:		
Profit for the year	9,298	7,389,337
Basic and diluted profit per share	**0.06**	**(0.02)**

24 SUBSEQUENT EVENTS

None.

…………………