Anadolubank Anonim Şirketi
And Its Subsidiaries

Consolidated Financial Statements
As At and For The Year Ended
31 December 2016
With Independent Auditors' Report Thereon

24 March 2017

This report contains the "Independent Auditors' Report" comprising 3 pages and; the "Financial statements and their explanatory notes" comprising 70 pages.

KPMG

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Independent Auditors' Report

To the Board of Directors of Anadolubank Anonim Şirketi

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Anadolubank Anonim Şirketi and its subsidiaries ("collectively the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Orhan Akova
Partner

24 March 2017
İstanbul, Turkey

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	*5*	71,171	57,515
Balances with central bank	*6*	1,138,770	474,521
Reserve deposits at central bank	*6*	1,018,937	1,075,289
Loans and advances to banks and other financial institutions	*5*	309,309	567,742
Receivables from reverse repurchase transactions	*5*	85,063	460,135
Trading assets	*7*	123,923	155,276
Derivative financial assets held for trading	*8*	53,654	94,366
Investment securities	*9*	1,209,472	1,655,535
Available for sale		*1,209,472*	*1,655,535*
Held to maturity		-	-
Loans and receivables	*10, 11*	10,125,172	8,086,954
Property and equipment	*12*	133,160	129,541
Intangible assets	*13*	6,962	4,397
Deferred tax assets	*18*	17,968	5,287
Other assets	*14*	357,306	347,479
Total assets		**14,650,867**	**13,114,037**
LIABILITIES			
Deposits from banks	*15*	408,322	591,169
Deposits from customers	*15*	10,048,152	8,005,021
Obligations under repurchase agreements	*15*	705,296	1,416,639
Interbank money market borrowings	*15*	108,882	-
Funds borrowed	*16*	1,028,411	951,520
Derivative financial liabilities held for trading	*8*	60,047	42,481
Current tax liability	*18*	22,875	7,691
Deferred tax liabilities	*18*	376	21,781
Other liabilities and provisions	*17*	470,151	521,012
Total liabilities		**12,852,512**	**11,557,314**
EQUITY	***19***		
Share capital		602,619	602,619
Legal reserves		63,168	55,570
Other reserves		(6,065)	309
Translation reserve		125,435	82,002
Fair value reserve		(41,616)	(23,016)
Retained earnings		1,052,473	836,939
Total equity attributable to equity holders of the Bank		**1,796,014**	**1,554,423**
Non-controlling interests	***19***	**2,341**	**2,300**
Total equity		**1,798,355**	**1,556,723**
Total liabilities and equity		**14,650,867**	**13,114,037**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	2016	2015
Continuing operations:			
Interest income:			
Interest on loans and receivables	*21*	1,112,336	924,404
Interest on marketable securities	*21*	80,386	94,277
Interest on loans and advances to banks and other financial institutions	*21*	11,612	8,809
Interest on other money market placements	*21*	25,325	30,192
Other interest income	*21*	9,280	5,470
Total interest income		**1,238,939**	**1,063,152**
Interest expenses:			
Interest on deposits	*21*	(630,696)	(526,968)
Interest on other money market deposits	*21*	(22,925)	(23,543)
Interest on funds borrowed	*21*	(38,304)	(36,356)
Other interest expenses	*21*	(2,191)	(1,904)
Total interest expenses		**(694,116)**	**(588,771)**
Net interest income		**544,823**	**474,381**
Fee and commission income	*22*	117,626	100,863
Fee and commission expenses	*22*	(16,861)	(16,332)
Net fee and commission income		**100,765**	**84,531**
Trading income from marketable securities		56,551	9,853
Trading gains/(losses) from derivatives, net		(11,818)	(17,781)
Foreign exchange gain/(loss), net		(8,897)	(8,050)
Other income		19,377	12,417
Revenue		**700,801**	**555,351**
Salaries and employee benefits	*23*	(217,511)	(189,712)
Provision for possible loan losses, net of recoveries	*10*	(90,492)	(95,570)
Depreciation and amortisation		(10,918)	(10,202)
Taxes other than on income		(19,043)	(15,524)
Other expenses	*24*	(88,746)	(80,097)
Profit before tax		**274,091**	**164,246**
Taxation	*18*	(57,704)	(33,162)
Profit for the year		**216,387**	**131,084**
Profit for the year attributable to:			
Equity holders of the Bank		216,346	131,037
Non-controlling interests		41	47
Profit for the year		**216,387**	**131,084**
Earnings per share from continuing operations (full TL)		0.003606	0.002185

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	2016	2015
Profit for the year		**216,387**	**131,084**
Other comprehensive income:			
Foreign currency translation differences for foreign operations		43,845	29,013
Fair value reserve of available for sale financial assets		(18,600)	(7,382)
Other comprehensive income for the year, net of income taxes		**25,245**	**21,631**
Total comprehensive income for the year		**241,632**	**152,715**
Total comprehensive income attributable to:			
Equity holders of the Bank		241,591	152,553
Non-controlling interests		41	162
Total comprehensive income for the year		**241,632**	**152,715**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

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

		Attributable to equity holders of the Bank								
	Notes	Share capital	Legal reserves	Other reserves	Translation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total
Balances at 1 January 2015	*19*	**602,619**	**47,880**	**60**	**53,458**	**(15,634)**	**713,184**	**1,401,567**	**2,440**	**1,404,007**
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**131,038**	**131,038**	**47**	**131,085**
Total other comprehensive income		**-**	**-**	**-**	**29,200**	**(7,382)**	**-**	**21,818**	**(187)**	**21,631**
- Other comprehensive income		-	-	-	-	*(7,382)*	-	*(7,382)*	-	*(7,382)*
- Currency translation adjustments		-	-	-	*29,200*	-	-	*29,200*	*(187)*	*29,013*
Total comprehensive income for the year		**-**	**-**	**-**	**29,200**	**(7,382)**	**131,038**	**152,856**	**(140)**	**152,716**
Transactions with owners, recorded directly in equity		**-**	**7,690**	**249**	**(656)**	**-**	**(7,283)**	**-**	**-**	**-**
Gains on sale of assets		-	-	-	-	-	-	-	-	-
Transfers to other reserves		-	7,690	249	(656)	-	(7,283)	-	-	-
Balances at 31 December 2015	*19*	**602,619**	**55,570**	**309**	**82,002**	**(23,016)**	**836,939**	**1,554,423**	**2,300**	**1,556,723**

		Attributable to equity holders of the Bank								
	Notes	Share capital	Legal reserves	Other reserves	Translation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total
Balances at 1 January 2016	*19*	**602,619**	**55,570**	**309**	**82,002**	**(23,016)**	**836,939**	**1,554,423**	**2,300**	**1,556,723**
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**216,346**	**216,346**	**41**	**216,387**
Total other comprehensive income		**-**	**-**	**-**	**43,845**	**(18,600)**	**-**	**25,245**	**-**	**25,245**
- Other comprehensive income		-	-	-	-	*(18,600)*	-	*(18,600)*	-	*(18,600)*
- Currency translation adjustments		-	-	-	*43,845*	-	-	*43,845*	-	*43,845*
Total comprehensive income for the year		**-**	**-**	**-**	**43,845**	**(18,600)**	**216,346**	**241,591**	**41**	**241,632**
Transactions with owners, recorded directly in equity		**-**	**7,598**	**(6,374)**	**(412)**	**-**	**(812)**	**-**	**-**	**-**
Gains on sale of assets		-	-	-	-	-	-	-	-	-
Changes asset sale		-	-	-	-	-	-	-	-	-
Transfers to other reserves		-	7,598	(6,374)	(412)	-	(812)	-	-	-
Balances at 31 December 2016	*19*	**602,619**	**63,168**	**(6,065)**	**125,435**	**(41,616)**	**1,052,473**	**1,796,014**	**2,341**	**1,798,355**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	2016	2015
Cash flows from operating activities:			
Profit for the year		216,387	131,085
Adjustments for:			
Taxation	*18*	57,704	33,162
Provision for loan losses		90,492	95,570
Depreciation and amortisation		10,918	10,202
Provision for retirement pay liability	*17*	4,483	3,811
Unused vacation accruals	*17*	3,932	1,057
Derivative financial instruments		58,278	(18,716)
Currency translation differences		43,845	(8,963)
Net interest income		(544,823)	210,677
Other		586,268	(483,949)
Operating profit before changes in operating assets/liabilities:		**527,484**	**(26,064)**
Reserve deposits at the Central Bank		(621,553)	(398,854)
Financial assets at fair value through profit or loss		22,032	(20,586)
Loans and receivables		(2,207,705)	(798,909)
Change in funds borrowed (net)		76,715	202,921
Other assets		(7,977)	(50,305)
Deposits from other banks and customers		2,043,805	937,731
Other liabilities and provisions		(690,531)	460,004
		(857,730)	**305,938**
Interest paid		(692,164)	(580,466)
Interest received		1,164,488	1,023,135
Retirement benefits paid	*17*	(3,802)	(2,799)
Unused vacation accruals	*17*	(2,106)	(1,009)
Income taxes paid		(70,343)	(17,276)
Cash provided by operating activities		**(461,687)**	**727,523**
Cash flows from investing activities			
Acquisition of held to maturity investment securities	*9*	-	(8,245)
Acquisition of property and equipment	*12*	(12,513)	(16,974)
Proceeds from sale of property and equipment	*12*	1,280	409
Acquisition of intangible assets	*13*	(4,476)	(1,706)
Acquisitions of available-for-sale investment securities		(186,189)	(332,058)
Proceeds from sale of available-for-sale investment securities		632,252	3,905
Cash used in investing activities		**430,354**	**(354,669)**
Cash flows from financing activities		-	-
Effect of exchange rate fluctuations on cash held		63,726	47,295
Net increase in cash and cash equivalents		32,393	420,149
Cash and cash equivalents at the beginning of the year	5	1,532,156	1,112,007
Cash and cash equivalents at the end of the year	5	**1,564,549**	**1,532,156**

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

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1. General information

Anadolubank Anonim Şirketi (the "Bank") started its operations on 25 September 1997 in Turkey under the Turkish Banking Law and the Turkish Commercial Code pursuant to the permit of the Turkish Undersecretariat of Treasury dated 25 August 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 106 (31 December 2015: 106) domestic branches. The address of the headquarters and registered office of the Bank is Saray Mahallesi Toya Sokak No: 3 Ümraniye / Istanbul-Turkey.

The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ. Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ was founded by Hamdi Başaran in 1956 with the name "Hamdi Başaran Topkapı Oxygen Plant" to implement modern industrial gas production. The growth of the company started in 1967 with the production of oxygen, nitrogen and argon gases in liquid form for the first time in Turkey. Today, Habaş is one of the major companies of Turkey, producing industrial and medical gases, steel, electrical energy, heavy machinery, distributing Liquified Petroleum Gas ("LPG"), Liquified Natural Gas ("LNG") and Compressed Natural Gas ("CNG"), offering sea transportation services for LPG and operating sea ports.

The Bank has three subsidiaries, which are Anadolu Yatırım Menkul Değerler AŞ ("Anadolu Yatırım"), Anadolu Faktoring AŞ ("Anadolu Faktoring") and Anadolubank Nederland N.V. ("Anadolubank Nederland").

The Bank has 91.90% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and is mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret AŞ (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100.00% ownership in Anadolubank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

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

2. Basis of preparation

2.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey, the Turkish Commercial Code and the Turkish Tax Legislation. The Bank's foreign subsidiary maintains its books of account and prepare its statutory financial statements in EUR in accordance with the regulations of the country in which it operates.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 are authorised for issue by the management on 24 March 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following assets and liabilities which are stated at their fair values if reliable measures are available: derivative financial assets and liabilities held for trading purposes, financial assets at fair value through profit or loss and available for sale financial assets.

2.3. Functional currency and presentation currency

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

2.4. Accounting in hyperinflationary countries

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

2. Basis of preparation *(continued)*

2.5. Use of estimates and judgments

The preparation of the consolidated financial statements 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 recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 8 – Derivative financial assets and liabilities held for trading purpose
- Note 10 – Loans and receivables
- Note 17 – Other liabilities and provisions
- Note 18 – Income taxes
- Note 26 – Financial risk management

2.6. Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements as at 31 December 2016 are consistent with those followed in the preparation of the financial statements of the prior year, except for the new standards and amendments to standards, including any consequential amendments to other standards summarized in related notes.

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

Standards issued but not yet effective and not early adopted

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank is in the process of assessing the impact of the standard on the financial position or performance of the Bank.

IFRS 15 Revenue from Contracts with customers

The standard replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognising revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Bank is in the process of assessing the impact of the standard on the financial position or performance of the Bank.

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

Amendments to IAS 7 *Statement of Cash Flows* – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

Amendments to IAS 40 –Investment Property

Amendments to IAS 40 - Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

2. Basis of preparation *(continued)*

2.6. Changes in accounting policies *(continued)*

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Bank does not expect that these amendments will have significant impact on the financial position or performance of the Bank.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

IAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

3. Significant accounting policies

Except the changes disclosed in Note 2.6, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3.1. Basis of consolidation

(i) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Non-controlling interests

Non-controlling interests ("NCI") are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

3. Significant accounting policies *(continued)*

3.2. Foreign currency

i) Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for Anadolubank Nederland of which they are recorded in Euro. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in the statement of profit or loss and other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Group for foreign currency translation are as follows:

	EUR / TL	USD / TL
31 December 2016	3.7099	3.5192
31 December 2015	3.1838	2.9181

ii) Foreign operations

The assets and liabilities of foreign subsidiaries are translated into presentation currency of the Group at the rate of exchange ruling at the reporting date. The income statement of foreign subsidiaries is translated at the weighted average exchange rates after the acquisition date. On consolidation exchange differences arising from the translation of the net investment in foreign entity are included in equity as currency translation reserve.

Foreign currency differences, arising from foreign subsidiaries, are recognised in other comprehensive income ("OCI"), under the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss, as part of the profit or loss on disposal.

3.3 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for available-for-sale investment securities calculated on an effective interest basis,

3. Significant accounting policies *(continued)*

3.4. Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

3.5. Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of available for sale securities.

3.6. Dividends

Dividend income is recognised when the right to receive the income is established.

3.7. Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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

3. Significant accounting policies *(continued)*

3.8. Income tax expense

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

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

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses can be utilised.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities

Recognition

The Group initially recognises loans, factoring receivables and advances, deposits and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Classification

Financial assets:

The Group classifies its financial assets into one of the following categories:

Loans and receivables

Held to maturity

Available-for-sale; and

At fair value through profit or loss, and within this category as:

- Held for trading.

Financial liabilities:

The Group classifies its financial liabilities as measured at amortised cost. See 3.19.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

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

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Offsetting

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

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

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

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

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. In order to determine allowance rate for portfolio basis, the Group uses historical allowance rates based on its own statistical data.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest rate, penalty or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

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

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

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 assets’ carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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 legal and regulatory procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in profit or loss.

Repurchase and resale transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement (‘repos’), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements (‘repos’) are reclassified in the consolidated financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

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

3.10. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3. Significant accounting policies *(continued)*

3.11 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Group 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 liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3.12. Loans, receivables and advances

Loans, receivables and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investment – available-for-sale" or "Financial assets designated at fair value through profit or loss". After initial measurement, amounts loans, receivables and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in "Interest income" in profit or loss. The losses arising from impairment are recognised in profit or loss in "Net impairment loss on financial assets".

3. Significant accounting policies *(continued)*

3.13. Investment securities

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Group has the intent and ability to hold until maturity. Investment securities held-to-maturity is initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in the consolidated statement of profit or loss.

The Bank reclassified securities previously as held to maturity financial assets as available-for-sale financial assets on 17 June 2015. Therefore, the Group cannot classify its financial assets as held to maturity financial assets until 1 January 2018. As at 31 December 2016, the carrying value of these financial assets reclassified to available-for-sale financial assets is TL 245,520.

Available-for-sale financial investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale reserve".

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the consolidated statement of income.

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

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

3. Significant accounting policies *(continued)*

3.14. Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Years
Buildings and land improvements	50
Machinery and equipment	5
Office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	shorter of the useful life of the asset or the lease term

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. Significant accounting policies *(continued)*

3.15. Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to five years.

Amortisation methods, useful lives and residual values are reserved at each reporting date and adjusted if appropriate.

3.16. Assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.17. Leases

The Group as lessee

Operating leases

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

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

A part of the Bank's branch buildings is used through operating leases and lease payments made on operating leases during the lease term, expenses are recorded in equal amounts.

Finance leases

Finance leases, which transfer to the Group 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.

3. Significant accounting policies *(continued)*

3.18. Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

3.19. Deposits and funds borrowed

Deposits are the Bank's main source of debt funding. Deposits of the Bank comprised of the deposits from banks and customers.

Deposits and funds borrowed are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.20. Provisions

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3. Significant accounting policies *(continued)*

3.21. Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee’s probable future liability arising from the retirement. IAS 19 (2011) (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the bank’s obligation under defined employee plans. IAS 19 (2011) (“Employee Benefits”) has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.22. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, whose operating results are reviewed regularly by the Group’s Management Committee (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis.

3.23. Events after the reporting period

Events after the reporting period that provide additional information about the Group’s position at the reporting dates (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

4. Operating segments

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the chief operating decision maker, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking

Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking

Includes loans, deposits and other transactions and balances with corporate customers.

Treasury

Undertakes the Group's funding and centralised risk management activities through borrowings, and investing in liquid assets such as short-term placements and corporate and government debt securities.

Investment banking

Includes the Group's trading and corporate finance activities.

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

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

4. Operating segments *(continued)*

Information about operating segments

31 December 2016	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Net interests, fees and commission income	209,645	332,102	90,147	13,694	-	645,588
Other income and other expenses, net	(120,638)	(191,105)	(51,874)	(7,880)	-	(371,497)
Profit before taxes	**89,007**	**140,997**	**38,273**	**5,814**	**-**	**274,091**

31 December 2016	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Segment assets	4,590,770	7,251,995	1,992,539	308,600	506,963	14,650,867
Total assets	**4,590,770**	**7,251,995**	**1,992,539**	**308,600**	**506,963**	**14,650,867**
Segment liabilities	3,378,091	5,336,338	1,466,198	227,081	2,444,804	12,852,512
Equity and non-controlling interests	-	-	-	-	1,798,355	1,798,355
Total liabilities and equity	**3,378,091**	**5,336,338**	**1,466,198**	**227,081**	**4,243,159**	**14,650,867**

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

4. Operating segments *(continued)*

Information about operating segments *(continued)*

31 December 2015	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Net interests, fees, and commissions income	181,498	287,514	78,044	11,856	-	558,912
Revenue and other expenses, net	(128,202)	(203,312)	(54,920)	(8,276)	44	(394,666)
Profit before taxes	**53,296**	**84,202**	**23,124**	**3,580**	**44**	**164,246**

31 December 2015	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Segment assets	4,100,414	6,477,386	1,779,709	275,638	480,890	13,114,037
Total assets	**4,100,414**	**6,477,386**	**1,779,709**	**275,638**	**480,890**	**13,114,037**
Segment liabilities	3,613,668	5,708,478	1,568,446	242,917	423,805	11,557,314
Equity and non-controlling interests	-	-	-	-	1,556,723	1,556,723
Total Liabilities and Equity	**3,613,668**	**5,708,478**	**1,568,446**	**242,917**	**1,980,528**	**13,114,037**

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

5. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash and cash equivalents	71,171	57,515
Loans and advances to banks (with original maturity of less than 3 months)	309,309	567,742
Unrestricted balances with the central bank	1,138,770	474,521
Receivables from reverse repurchase transactions	85,063	460,135
Total cash and cash equivalents in the consolidated statement of financial position	**1,604,313**	**1,559,913**
Blocked loans and advances to banks and other financial institutions	(33,222)	(17,788)
Loans and advances to banks (with original maturity of more than 3 months)	(4,040)	(9,548)
Interest accruals on cash and cash equivalents	(2,502)	(421)
Cash and cash equivalents in the consolidated statement of cash flows	**1,564,549**	**1,532,156**

As at 31 December 2016, deposits with banks amounting to TL 33,222 (31 December 2015: TL 17,788) are blocked at financial institutions for the interest rate swaps and credit default swaps entered into by the Group.

6. Balances with central bank

a) Unrestricted balances with central bank

	31 December 2016	31 December 2015
Demand deposits-TL	327,903	190,785
Demand deposits-FC	810,667	283,736
Total	**1,138,770**	**474,521**

b) Reserve deposits with central bank

	31 December 2016	31 December 2015
Foreign currency reserve	1,018,937	1,075,289
Total	**1,018,937**	**1,075,289**

Reserve deposits are kept as blockage in Central Bank of Turkey (CBRT) for foreign currency liabilities. The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or EUR at the rates of 4%, 5.5% and 12%, respectively as per the Communiqué no.2005/1 "Reserve Deposits" of the CBRT. After the change in communiqué reserve ratio for Turkish Lira liabilities has been changed to between 4% and 10.5% according to the maturity of the liabilities and it has been taken into consideration as of the report date.

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

7. Trading assets

	31 December 2016		31 December 2015	
	Carrying value	**Effective interest rate (%)**	**Carrying value**	**Effective interest rate (%)**
Eurobonds issued by the Turkish Government	972	2.44-5.88	533	4.24-5.65
Government bonds in TL	110,527	8.58-9.64	105,017	9.83-10.97
Equity securities	4,602	-	8,708	-
Eurobonds issued by other Governments, public and private Eurobonds	7,662	-	41,018	15.98
Public and private bonds in TL	160	-	-	-
Total	**123,923**		**155,276**	

Debt instruments are given as collateral under repurchase agreements:

	31 December 2016	31 December 2015
Deposited at financial institutions for repurchase transactions	51,798	43,335

As at 31 December 2016, the carrying and the nominal values of government securities kept at Istanbul Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Clearing and Custody Incorporation) and at Capital Markets Board of Turkey for legal requirements and as a guarantee for stock exchange and money market operations are amounting to TL 23,071 (31 December 2015: TL 58,728).

8. Derivative financial assets / liabilities held for trading purpose

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

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

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

8. Derivative financial assets / liabilities held for trading purpose *(continued)*

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date and option pricing models. 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.

	31 December 2016								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	643	645	621,247	608,580	5,415	7,252	-	-	-
Forward sale contract	-	-	593,035	580,437	5,368	7,230	-	-	-
Currency swap purchase	53,011	59,402	1,540,713	1,070,727	133,340	-	193,255	138,791	4,600
Currency swap sale	-	-	1,578,323	1,068,045	136,697	-	215,905	152,796	4,880
Interest swap purchase	-	-	224,449	-	-	-	-	211,464	12,985
Interest swap sale	-	-	224,449	-	-	-	-	211,464	12,985
Put option purchase	-	-	240,068	78,224	144,067	17,777	-	-	-
Put option sale	-	-	240,068	78,224	144,067	17,777	-	-	-
Total	**53,654**	**60,047**	**5,262,352**	**3,484,237**	**568,954**	**50,036**	**409,160**	**714,515**	**35,450**

	31 December 2015								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	572	4,147	1,126,172	463	-	-	1,125,709	-	-
Forward sale contract	-	-	1,048,625	3,655	-	-	1,044,970	-	-
Currency swap purchase	93,794	38,334	1,299,357	198,891	101,247	3,269	710,245	285,705	-
Currency swap sale	-	-	1,327,279	140,666	101,336	3,347	759,550	322,380	-
Put option purchase	-	-	79,157	-	-	-	79,157	-	-
Put option sale	-	-	79,157	-	-	-	79,157	-	-
Total	**94,366**	**42,481**	**4,959,747**	**343,675**	**202,583**	**6,616**	**3,798,788**	**608,085**	**-**

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

9. Investment securities

	31 December 2016		31 December 2015	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Debt instruments:				
Eurobonds issued by the Turkish Government	920,617	4.00-6.00	1,267,214	5.62-6.15
Foreign currency denominated bonds	288,855	5.00-6.00	388,321	1.18-7.00
Total available for sale securities	**1,209,472**		**1,655,535**	
Debt instruments:				
Eurobonds issued by the Turkish Government	-	-	-	-
Foreign currency denominated bonds	-	-	-	-
Total held to maturity securities	-		-	

Carrying value of available for sale securities given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	31 December 2016	31 December 2015
Deposited at financial institutions for repurchase transactions	582,676	1,574,190
Other collaterals	626,796	81,345
Total	**1,209,472**	**1,655,535**

Movement for held to maturity investments

	31 December 2016	31 December 2015
Balances at beginning of period	-	**1,017,368**
Foreign currency differences on monetary assets	-	154,406
Purchases during the period(2)	-	8,245
Disposals through sales and redemptions	-	-
Allowance for impairment	-	-
Changes in amortised cost(1)	-	(2,145)
Transfer to available for sale portfolio	-	(1,177,874)
Balances at end of period	-	-

(1) Changes in amortised cost include interest accrual on securities.
(2) The Bank reclassified securities as held to maturity financial asset as available for sale financial assets on 17 June 2015. Therefore, the Group cannot classify its financial assets as held to maturity financial assets until 1 January 2018. As at 31 December 2016, the carrying value of these financial assets reclassified to available-for-sale financial assets is TL 245,520.

As at 31 December 2016, carrying value of underlying financial assets classified as available-for-sale investments collateralised against repurchase agreements is TL 582,676.

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

10. Loans and receivables

	31 December 2016						
	Amount				Effective interest rate (%)		
	TL	**FC**	**FC indexed**	**Total**	**TL**	**FC**	**FC indexed**
Corporate loans	7,362,044	1,381,586	736,021	9,479,651	3.00-49.50	3.00-7.15	3.00-9.00
Consumer loans	217,045	-	12,382	229,427	4.68-23.04	4.5	
Credit cards	60,709	46	-	60,755	24.24		
Factoring receivables	307,816	-	-	307,816	4.01-36.63		
Total performing loans	**7,947,614**	**1,381,632**	**748,403**	**10,077,649**			
Non-performing loans	-	-	-	286,571	-	-	-
Allowance for:							
Individually impaired loans	-	-	-	(150,345)	-	-	-
Collectively impaired loans	-	-	--	(88,703)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**10,125,172**	**-**	**-**	**-**

	31 December 2015						
	Amount				Effective interest rate (%)		
	TL	**FC**	**FC indexed**	**Total**	**TL**	**FC**	**FC indexed**
Corporate loans	4,794,135	1,984,418	698,126	7,476,679	6.50-30.00	3.00-8.25	3.60-7.15
Consumer loans	283,065	1,800	-	284,865	7.08-21.60	3.60-4.50	-
Credit cards	68,452	-	-	68,451	24.24	-	-
Factoring receivables	219,013	-	-	219,013	5.51-35.41		
Total performing loans	**5,364,665**	**1,986,218**	**698,126**	**8,049,008**			
Non-performing loans	-	-	-	342,826	-	-	-
Allowance for:				-			
Individually impaired loans	-	-	-	(210,840)	-	-	-
Collectively impaired loans	-	-	-	(94,040)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**8,086,954**	**-**	**-**	**-**

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

10. Loans and receivables *(continued)*

The specific allowance for possible loan losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

Movements in the reserve for possible loan losses:

	31 December 2016	31 December 2015
Reserve at beginning of the period/year	304,880	209,311
Provision for possible loan losses, net of recoveries	90,492	95,055
- Provision for possible loan losses	*117,260*	*127,686*
- Recoveries	*(26,768)*	*(32,631)*
Provision, net of recoveries	**90,492**	**95,570**
Loans written off during the period/year	(156,324)	-
Foreign currency differences on monetary assets	-	514
Reserve at end of the period/year	**239,048**	**304,880**

11. Factoring receivables

As at 31 December 2016 and 2015, short-term and long-term factoring receivables included in the loans and receivables are as follows:

	31 December 2016	31 December 2015
Short-term	303,190	212,138
Long-term	4,626	6,875
Total	**307,816**	**219,013**

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

12. Property and equipment

Movements of property and equipment as at and for the year ended 31 December 2016 and 2015 are as follows:

	Buildings	Motor vehicles	Furniture, office equipment and leasehold improvements	Total
Cost				
Opening balance, 1 January 2015	101,733	7,626	92,060	201,419
Additions	12,306	-	4,668	16,974
Disposals	-	(154)	(255)	(409)
Closing balance, 31 December 2015	**114,039**	**7,472**	**96,473**	**217,984**
Opening balance, 1 January 2016	114,039	7,472	96,473	217,984
Additions	4,775	99	7,639	12,513
Disposals	-	(170)	(1,110)	(1,280)
Effect of movements in exchange rates	-	-	124	124
Closing balance, 31 December 2016	**118,814**	**7,401**	**103,126**	**229,341**
Accumulated depreciation:				
Opening balance, 1 January 2015	1,394	6,597	72,229	80,220
Additions	1,088	781	7,017	8,886
Disposals	-	(134)	(529)	(663)
Closing balance, 31 December 2015	**2,482**	**7,244**	**78,717**	**88,443**
Opening balance, 1 January 2016	2,482	7,244	78,717	88,443
Additions	1,516	271	7,040	8,827
Disposals	-	(147)	(942)	(1,089)
Closing balance, 31 December 2016	**3,998**	**7,368**	**84,815**	**96,181**
Net carrying value				
1 January 2015	100,339	1,029	19,831	121,199
31 December 2015	111,557	228	17,756	129,541
31 December 2016	114,816	33	18,311	133,160

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

13. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2016 and 2015 are as follows:

	Software	Other intangibles	Total
Cost			
Opening balance, 1 January 2015	16,079	1,356	17,435
Additions	1,706	-	1,706
Disposals	-	-	-
Closing balance, 31 December 2015	**17,785**	**1,356**	**19,141**
Opening balance, 1 January 2016	17,785	1,356	19,141
Additions	4,476	-	4,476
Disposals	-	-	-
Closing balance, 31 December 2016	**22,261**	**1,356**	**23,617**
Accumulated amortisation:			
Opening balance, 1 January 2015	13,240	1,356	14,596
Additions	1,316	-	1,316
Disposals	1,168	-	1,168
Closing balance, 31 December 2015	**13,388**	**1,356**	**14,744**
Opening balance, 1 January 2016	13,388	1,356	14,744
Additions	1,911	-	1,911
Disposals	-	-	-
Closing balance, 31 December 2016	**15,299**	**1,356**	**16,655**
Net carrying value			
1 January 2015	2,813	-	2,813
31 December 2015	4,397	-	4,397
31 December 2016	6,962	-	6,962

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

14. Other assets

	31 December 2016	31 December 2015
Transfer cheques	212,629	134,221
Collateral for leveraged operations(1)	56,242	117,457
Assets held for resale	34,535	16,836
Credit card payments	21,701	12,739
Prepaid expenses	5,389	5,032
Advances given	261	371
Collateral for derivatives	-	50,920
Other	26,549	9,902
Total	**357,306**	**347,478**

(1) Collateral for leveraged operations are composed of the colleterals given for transactions, which take place through Anadolu Yatırım Menkul Kıymetler AŞ.

As at 31 December 2016, TL 34,535 (31 December 2015: TL 16,836) of the other assets is comprised of foreclosed real estates acquired by the Bank against its impaired receivables.

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

15. Deposits

Deposits from banks

	31 December 2016				31 December 2015			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Demand	10	3,329	-	-	271	17,170	-	-
Time	237,110	167,873	10.00-11.00	0.83-2.20	218,059	355,669	11.50-13.10	0.67-2.00
Total	**237,120**	**171,202**			**218,330**	**372,839**		

Deposits from customers

	31 December 2016				31 December 2015			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Saving:								
Demand	63,679	395,268	-	-	63,727	412,795	-	-
Time	1,872,577	871,297	5.00-12.50	0.50-4.05	2,682,027	2,214,061	6.50-13.95	0.25-2.85
	1,936,256	**1,266,565**			**2,745,754**	**2,626,856**		
Commercial and other deposits:								
Demand	262,627	272,974	-	-	223,911	212,818	-	-
Time	3,433,158	2,876,572	3.50-12.35	0.10-3.90	1,093,023	1,102,659	6.50-13.95	0.10-2.85
	3,695,785	**3,149,546**			**1,316,934**	**1,315,477**		
Total	**5,632,041**	**4,416,111**			**4,062,688**	**3,942,333**		

Other money market deposits

	31 December 2016				31 December 2015			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Obligations under repurchase agreements:								
Due to banks	191,698	622,480	8.00	1.82-2.76	268,422	1,148,217	7.50-9.50	0.47-1.33
Total	**191,698**	**622,480**			**268,422**	**1,148,217**		

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

15. Deposits *(continued)*

Other money market deposits *(continued)*

As at 31 December 2016, carrying values of underlying financial assets at fair value through profit or loss collateralised against repurchase agreements amounted to TL 51,798 (31 December 2015: TL 43,335). There is no financial asset classified as held-to-maturity investments collateralised against repurchase agreements (31 December 2015: None) and carrying values of underlying financial assets classified as available-for-sale investments collateralised against repurchase agreements amounted to TL 582,676 (31 December 2015: TL 1,574,190).

16. Funds borrowed

	31 December 2016				31 December 2015			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term(*)	220,231	92,716	6.34-6.84	0.25-3.46	180,263	462,480	6.34-7.59	0.25-2.68
Medium/long term(*)	30,178	685,286	-	2.25-3.48	-	308,777	-	1.42-2.85
Total	**250,409**	**778,002**			**180,263**	**771,257**		

(*) Borrowings are presented considering their original maturities.

Repayment plans of funds borrowed are as follows:

	31 December 2016	31 December 2015
2016	-	951,520
2017	983,892	-
2018	-	-
2019	-	-
2020	44,519	-
Total	**1,028,411**	**951,520**

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

17. Other liabilities and provisions

	31 December 2016	31 December 2015
Transfer orders	245,195	182,340
Collateral for leveraged operations	57,475	103,650
Payables due from credit cards	26,242	27,470
Collections from guarantee cheques	15,540	22,086
Other various provisions	33,006	31,662
Taxes other than on income	29,797	21,490
Reserve for employee severance indemnity and vacation	16,848	14,371
- Employee severance indemnity	*8,093*	*7,442*
- Vacation pay liability	*8,755*	*6,929*
Collateral from derivatives	-	63,129
Other	46,048	54,814
Total	**470,151**	**521,012**

The movement of employee severance indemnity is as follows:

	31 December 2016	31 December 2015
Net liability at the beginning of the year	7,442	6,430
Benefit paid directly	(3,832)	(2,799)
Total expense recognised in the income statement	4,483	3,811
Total	**8,093**	**7,442**

IAS 19 (2011) requires that all actuarial gains and losses to be recognised immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

The Group recognised all actuarial gains and losses under profit or loss accounts for the years ended 31 December 2016 and 2015 due to immaterial effect of the related amount.

The movement of vacation pay liability is as follows:

	31 December 2016	31 December 2015
Total provision at the beginning of the year	6,929	6,881
Paid during the year	(2,106)	(1,009)
Total expense recognised in the profit or loss	3,932	1,057
Total	**8,755**	**6,929**

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

18. Income taxes

Major components of income tax expense:

	2016	2015
Current income taxes:		
Current income tax charge	(88,020)	(14,165)
Deferred taxes:		
Relating to origination and reversal of temporary differences	30,316	(18,997)
Income tax expense	**(57,704)**	**(33,162)**

The current income tax charges and prepaid taxes are detailed below:

	31 December 2016	31 December 2015
Current income tax charge	88,020	14,165
Advance taxes	(65,145)	(6,474)
Current tax liability	**22,875**	**7,691**

The Bank is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

As at 31 December 2016 and 2015, deferred tax assets and liabilities are attributable to the following items:

	31 December 2016		31 December 2015	
	Deferred tax Assets/ (Liabilities)		Deferred tax Assets/ (Liabilities)	
	Asset	Liability	Asset	Liability
Valuation difference of derivative financial instruments	-	(5,338)	-	(17,235)
Differences in the measurement of the debt securities	-	(1,930)	-	(18,125)
Personnel bonuses	2,371	-	2,351	-
Reserve for employee severance indemnity and vacation	3,281	-	2,924	-
Valuation of AFS securities	11,614	-	6,964	-
Loan loss provisions	6,631	-	5,071	-
Other	1,008	(45)	1,927	(371)
Total deferred tax assets/(liabilities)	**24,905**	**(7,313)**	**19,237**	**(35,731)**
Offsetting	(7,313)	7,313	(35,731)	35,731
Deferred tax assets/(liabilities)	**17,592**	**-**	**(16,494)**	**-**

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

18. Income taxes *(continued)*

	31 December 2016	31 December 2015
Deferred tax asset / (liability) at 1 January	**(16,494)**	**1,339**
Deferred tax recognised in profit or loss	30,316	(18,997)
Deferred tax recognised in equity	3,765	1,167
Foreign currency difference	5	(3)
Prior period corporate tax that was paid in the current period	-	-
Deferred tax asset / (liability) at 31 December	**17,592**	**(16,494)**

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis based on the legally enforceable right to set off the recognised amounts such as offsetting current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	31 December 2016	31 December 2015
Deferred tax assets	17,968	5,287
Deferred tax liabilities	(376)	(21,781)
Total	**17,592**	**(16,494)**

A reconciliation of income tax expense applicable to profit from operating activities before income taxes at the statutory income tax rate to income tax expense at the Group’s effective income tax rate for the year ended 31 December 2016 and 2015 were as follows:

	2016	2015
Net profit from ordinary activities before income taxes and non-controlling interest	**274,091**	**164,246**
Taxes on income per statutory tax rate	54,818	32,849
Disallowable expenses	2,920	442
Effect of income not subject to tax	(34)	(129)
Income tax expense	**57,704**	**33,162**

For the year ended 31 December 2016, the effective tax rate is 20.3% (2015: 20.2%).

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

19. Capital and reserves

Share capital

	31 December 2016	31 December 2015
Number of common shares, TL 0.01 (in full TL), par value Authorised, issued and outstanding 60,000 millions	600,000	600,000

As at 31 December 2016 and 2015, the authorised nominal share capital of the Bank amounted to TL 600,000.

As at 31 December 2016 and 2015, the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2016		31 December 2015	
	Amount	**%**	**Amount**	**%**
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,867	69.98	419,867	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,238	2.70	16,238	2.70
Nominal value	**600,000**	**100.00**	**600,000**	**100.00**
Restatement effect per IAS 29	2,619		2,619	
Total	**602,619**		**602,619**	

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Fair value reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

In 2015, the Bank has reclassified the securities from held-to-maturity investment securities to available-for-sale financial assets in accordance with the decision of Board of Directors. The loss of TL 42,744 net of deferred taxes at the transfer date that has been recognised directly in equity is amortised under profit or loss over the remaining life of the transferred securities using the effective interest method.

As at 31 December 2016, after deduction of related tax effect, amounted to TL 41,616 loss (31 December 2015: TL 23,016 loss) recognised under equity as gains/losses.

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

19. Capital and reserves *(continued)*

Other reserves and legal reserves

Other reserves consist of the legal reserves which amount to TL 63,168 and gain on sales of assets which amount to TL 60 (31 December 2015: TL 55,570 and TL 60; respectively).

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.

Non-controlling interests

As at 31 December 2016, net non-controlling interests amount to TL 2,341 (31 December 2015: TL 2,300).

20. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ which owns 69.98% (31 December 2015: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial statements, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families. In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

Outstanding balances

	31 December 2016	31 December 2015
Cash loans	26,746	9,641
Non-cash loans	86,281	30,822
Deposits taken	124,858	134,968

Transactions

	2016	2015
Interest income	832	2,526
Interest expense	3,236	2,478
Other operating income	-	-

Directors' remuneration

For the year ended 31 December 2016, the key management and the members of the Board of Directors received remuneration and fees amounting to TL 28,130 (31 December 2015: TL 21,791).

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

21. Interest income / expenses

	2016	**2015**
Interest on loans and receivables	1,112,336	924,404
Interest on marketable securities	80,386	94,277
Financial assets at FVTPL	*14,895*	*12,342*
Available for sale	*56,445*	*62,712*
Held to maturity	*9,046*	*19,223*
Interest on Loans and advances to banks and other financial institutions	11,612	8,809
Interest on other money market placements	25,325	30,192
Other interest income	9,280	5,470
Total interest income	**1,238,939**	**1,063,152**

	2016	**2015**
Interest on deposits	630,696	526,968
Interest on funds borrowed	38,304	36,356
Interest on other money market deposits	22,925	23,543
Other interest expenses	2,191	1,904
Total interest expenses	**694,116**	**588,771**

22. Fee and commission income / expenses

	2016	**2015**
From non-cash loans	20,849	17,561
Other	96,777	83,302
From cash loans	*24,158*	*21,827*
From individual loan application	*9,730*	*10,229*
From fund commissions	*-*	*10*
Other	*62,889*	*51,236*
Fee and commission income	**117,626**	**100,863**

	2016	**2015**
ATM commissions	-	801
Credit card commissions	4,014	6,148
Non-cash loan commissions	35	63
Other	12,812	9,320
Fee and commission expenses	**16,861**	**16,332**

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

23. Salaries and employee benefits

	2016	2015
Staff costs:		
Wages and salaries	152,205	133,651
Cost of defined contribution plan (employer's share of social security premiums)	23,255	20,407
Other fringe benefits	36,150	32,007
Provision for employee termination benefits and unused vacation accruals	5,901	3,647
Total	**217,511**	**189,712**

The average number of employees during the year is:

	2016	2015
The Bank	1,784	1,711
Subsidiaries	197	186
Total	**1,981**	**1,897**

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

24. Other expenses

	2016	**2015**
Operating lease charges	20,467	22,224
Communication expenses	6,912	6,351
Saving Deposit Insurance Fund Premium	6,619	5,868
Cleaning service expenses	4,729	4,220
Transportation expenses	4,620	4,491
Energy costs	4,106	3,395
Maintenance expenses	3,085	3,232
BRSA participation fee	1,422	1,123
Office supplies	1,321	1,187
Chartered accountants	568	1,177
Advertising expenses	412	1,231
Hosting cost	37	694
Expertise expenses	-	2,628
Other	34,448	22,276
Total	**88,746**	**80,097**

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

25. Commitments and contingencies

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

	31 December 2016	31 December 2015
Letters of guarantee	2,755,994	2,152,195
Letters of credit	411,412	269,190
Acceptance credits	3,043	21,953
Other guarantees	97,486	160,561
Total non-cash loans	**3,267,935**	**2,603,899**
Credit card limit commitments	105,822	154,274
Other commitments	617,706	524,852
Total	**3,991,463**	**3,283,025**

Litigations

In the normal course of its operations, the Group faces with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

As of 31 December 2016, there are 647 cases against the Group which have a probability to result against the Group with respect to information received from Law Departments of the Group. The total amount of these cases is TL 7,612 and provision amount for these cases is TL 6,937.

26. Financial risk management

(a) Introduction and overview

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

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

Risk management framework

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

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

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel III, are carried out.

Auditing Committee: The Auditing Committee consists of two members of the Board of Directors who do not have any executive functions. The Auditing Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

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

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

26. Financial risk management *(continued)*

(b) Credit risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth covering the counterparty risks arising from not only from future or option contracts but also credit risks originating from the transactions in Banking Law.

Exposure to credit risk

	Loans and advances to customers		**Other assets**	
	2016	**2015**	**2016**	**2015**
Impaired	286,571	342,826	1,300	742
Individual allowance for impairment	(150,345)	(210,840)	(1,300)	(742)
Carrying amount	**136,226**	**131,986**	**-**	**-**
Past due but not impaired	814,481	188,661	-	-
Carrying amount	**814,481**	**188,661**	**-**	**-**
Neither past due nor impaired	9,263,168	7,815,776	-	-
Loans with renegotiated terms	-	44,572	-	-
Carrying amount	**9,263,168**	**7,860,348**	**-**	**-**
Collective allowance for impairment	(88,703)	(94,040)	-	-
Total carrying amount	**10,125,172**	**8,086,954**	**-**	**-**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3 to 5 in the Group's internal credit risk grading system.

Past due but not impaired loans

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

Loans with renegotiated terms

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

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and the completion of the legal procedure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016 or 2015.

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

Cash loans	**31 December 2016**	**31 December 2015**
Secured loans:		
Secured by cash collateral	147,855	99,248
Secured by mortgages	2,998,082	1,590,905
Secured by government institutions or government securities	21,481	-
Guarantees issued by financial institutions	459,611	5,313
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	5,084,126	4,010,339
Unsecured loans	1,058,678	2,124,191
Total performing loans and receivables	**9,769,833**	**7,829,996**

Non-cash loans	**31 December 2016**	**31 December 2015**
Secured loans:		
Secured by mortgages	160,264	46,086
Guarantees issued by financial institutions	-	136,145
Secured by cash collateral	85,471	4
Secured by government institutions or government securities	-	41
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	2,064,157	1,565,682
Unsecured loans	958,043	855,941
Total non-cash loans	**3,267,935**	**2,603,899**

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

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

	31 December 2016	31 December 2015
Mortgages	156,304	103,685
Corporate and personal guarantees	-	73,732
Pledge on automobile	1,965	4,767
Total	**158,269**	**182,184**

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans is shown below:

	31 December 2016	31 December 2015
Construction	38,163	26,751
Service sector	32,884	28,449
Agriculture and stockbreeding	30,613	18,256
Textile	22,350	10,698
Metal and metal products	17,065	97,762
Food	14,796	7,898
Consumer loans	14,516	28,412
Durable consumption	13,025	24,305
Others	103,159	100,295
Total non-performing loans and receivables	**286,571**	**342,826**

	31 December 2016	31 December 2015
Turkey	286,440	342,695
United States of America	131	131
Total non-performing loans and receivables	**286,571**	**342,826**

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectorial break down of cash and non-cash loans

	31 December 2016				31 December 2015			
	Cash	Cash (%)	Non cash	Non cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Agriculture	**1,002,813**	**9.88**	**9,573**	**0.30**	**622,861**	**7.70**	**37,067**	**1.42**
Farming and stockbreeding	974,302	9.60	6,750	0.21	605,257	7.48	*31,966*	*1.23*
Forestry	5,019	0.05	1,242	0.04	3,102	0.04	*1,951*	*0.07*
Fishing	23,492	0.23	1,581	0.05	14,502	0.18	*3,150*	*0.12*
Industry	**2,484,994**	**24.47**	**571,795**	**17.50**	**1,907,131**	**23.58**	**847,192**	**32.54**
Mining and quarrying	183,116	1.80	10,798	0.33	123,719	1.53	*5,397*	*0.21*
Manufacturing	2,124,550	20.92	515,933	15.79	1,644,068	20.33	*822,973*	*31.61*
Electricity, gas, water	177,328	1.75	45,064	1.38	139,344	1.72	*18,822*	*0.72*
Construction	**1,745,724**	**17.19**	**840,340**	**25.71**	**1,397,709**	**17.28**	**691,782**	**26.57**
Services	**4,523,886**	**44.55**	**1,807,861**	**55.32**	**3,704,221**	**45.81**	**916,006**	**35.18**
Wholesale and retail trade	2,362,124	23.26	384,025	11.75	1,843,468	22.80	*385,314*	*14.81*
Hotel and restaurant services	192,662	1.90	35,054	1.07	*101,419*	*1.25*	*9,319*	*0.36*
Transportation and communication	702,497	6.92	102,795	3.15	*477,211*	*5.90*	*39,915*	*1.53*
Financial institution	605,145	5.96	1,010,109	30.91	*670,578*	*8.29*	*361,385*	*13.88*
Real estate and rent services	100,737	0.99	6,907	0.21	*47,624*	*0.59*	*2,615*	*0.10*
Professional services	313,348	3.09	221,936	6.79	*281,130*	*3.48*	*62,837*	*2.41*
Educational services	14,500	0.14	21,316	0.65	*27,355*	*0.34*	*16,510*	*0.63*
Health and social services	232,873	2.29	25,719	0.79	*255,436*	*3.16*	*38,111*	*1.46*
Consumer loans	**283,365**	**2.79**	**-**	**-**	**284,865**	**3.52**	**-**	**-**
Credit card	**68,452**	**0.67**	**-**	**-**	**68,452**	**0.85**	**-**	**-**
Others	**15,938**	**0.45**	**38,366**	**1.17**	**101,715**	**1.26**	**111,852**	**4.29**
Total	**10,125,172**	**100.00**	**3,267,935**	**100.00**	**8,086,954**	**100.00**	**2,603,899**	**100.00**

26. Financial risk management *(continued)*

(c) Liquidity risk

In order to avoid the liquidity risk, the Group diversifies funding resources as customer deposits and foreign borrowings, considers the maturity mismatch between assets and liabilities and maintains liquid assets to guarantee sufficient liquidity during market fluctuations.

While the Group short term liquidity need is met mainly with deposits, its long term liquidity is provided through foreign funding sources such as syndication and securitization transactions. There are no significant idle liquidity resources.

Liquidity Coverage Ratio

The Bank makes use of liquidity stress tests in the internal measurement of liquidity risk. In Liquidity gap analysis and liquidity stress scenarios, the Bank’s compensation level of net cash outflows which are more likely to happen in short term are presented. Measurements regarding liquidity risk are performed by Risk Management Department and measurement results are reported regularly to performer units responsible of management of the related risk and top management and the Board of Directors.

Liquidity risk may occur as a result of funding long-term assets with short-term resources. Utmost care is taken to maintain the consistency between the maturities of assets and liabilities; strategies are used to acquire funds over longer terms. In order to avoid adversely affecting the Bank's liquidity risk profile on the funding side of concentrations that may occur, deposit and non-deposit debt concentration limits are used in an active way.

Liquidity risk exposure of the bank, depending on the basic strategy of the Bank is consistent with the resulting risk appetite with risk capacity determined within the limits anticipated by the legislation is a key priority. The Bank, against a reduction in the huge levels may occur in liquidity sources it is essential to have adequate levels free liquid assets that can be sold in any case or pledged. The level of liquidity buffer consisting of liquid assets in question, expressed in liquidity risk limits are determined by the Board of Directors and is set in accordance with the Bank's liquidity risk tolerance. The Bank's Asset Liability Committee (ALCO) is responsible for determination of the required funding sources and maturities, revising the liquidity situation to determine the appropriate level of liquidity, within the limits approved by the Board of Directors.

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Liquidity Coverage Ratio *(continued)*

		Total Unweighted Value (average)		Total Weighted Value (average) (*)	
Current Period		**TL+FC**	**FC**	**TL+FC**	**FC**
HIGH QUALITY LIQUIDITY ASSETS					
1	High Quality Liquidity Assets			1,959,843	1,460,433
CASH OUTFLOWS					
2	Retail and Small Business Customers' Deposits	6,588,518	2,943,550	642,233	290,414
3	Stable Deposits	332,367	78,815	16,618	3,941
4	Less Stable Deposits	6,256,151	2,864,735	625,615	286,473
5	Unsecured Fundings besides retail and small business customers' deposits	3,979,593	1,249,398	2,255,433	644,605
6	Operational Deposits	26,955	26,955	6,739	6,739
7	Non-Operational Deposits	3,128,078	1,102,901	1,424,134	518,324
8	Other unsecured fundings	824,560	119,542	824,560	119,542
9	Secured Fundings			81,125	81,125
10	Other Cash Outflows	14,107	211,435	14,107	211,435
11	Derivatives cash outflows and collateral outflows	14,107	211,435	14,107	211,435
12	Obligation related to structured financial products	-	-		--
13	Commitments related to debts to financial markets and other off-balance sheet obligations	-	-	-	-
14	Other revocable off-balance sheet commitments and contractual obligations	259,591	259,591	12,980	12,980
15	Other irrevocable or conditionally revocable off-balance sheet obligations	2,426,770	437,895	352,479	63,720
16	TOTAL CASH OUTFLOWS			3,358,357	1,304,279
CASH INFLOWS					
17	Secured Lending	-	-	-	-
18	Unsecured Lending	1,397,817	491,712	1,072,732	433,832
19	Other Cash Inflows	153,732	140,420	153,732	140,420
20	TOTAL CASH INFLOWS	1,551,549	632,131	1,226,464	574,251
				Total Adjusted Value	
21	TOTAL HQLA STOCK			1,959,843	1,460,433
22	TOTAL NET CASH OUTFLOW			2,131,892	730,027
23	LIQUIDITY COVERAGE RATIO (%)			91.93	200.05

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Liquidity Coverage Ratio *(continued)*

Prior Period		Total Unweighted Value* (average)		Total Weighted Value* (average) (*)	
		TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUIDITY ASSETS					
1	High Quality Liquidity Assets			1,865,491	1,215,016
CASH OUTFLOWS					
2	Retail and Small Business Customers' Deposits	280,650	578,773	56,864	27,786
3	Stable Deposits	5,571	20,259	1,013	279
4	Less Stable Deposits	275,079	558,515	55,851	27,508
5	Unsecured fundings besides retail and small business customers' deposits	706,007	1,672,100	1,227,044	471,401
6	Operational Deposits	36,169	44,744	11,186	9,042
7	Non-Operational Deposits	507,960	929,644	518,146	300,481
8	Other unsecured fundings	161,878	697,712	697,712	161,878
9	Secured Fundings			-	-
10	Other Cash Outflows	-	-	-	
11	Derivatives cash outflows and collateral outflows	-	-	-	-
12	Obligation related to structured financial products	-	-	-	-
13	Commitments related to debts to financial markets and other off-balance sheet obligations	-	-	-	-
14	Other revocable off-balance sheet commitments and contractual obligations	10,902	10,902	545	545
15	Other irrevocable or conditionally revocable off-balance sheet obligations	71,914	277,324	60,819	14,252
16	TOTAL CASH OUTFLOWS			1,345,273	513,984
CASH INFLOWS					
17	Secured Lending	-	380,147	-	-
18	Unsecured Lending	346,365	725,116	532,451	295,626
19	Other Cash Inflows	269,724	125,656	125,656	269,724
20	TOTAL CASH INFLOWS	616,089	1,230,919	658,107	565,350
				Total Adjusted Value	
21	TOTAL HQLA STOCK			1,865,491	1,215,016
22	TOTAL NET CASH OUTFLOW			687,166	132,473
23	LIQUIDITY COVERAGE RATIO (%)			271.48	917.18

Liquidity Coverage Ratio

Liquidity coverage ratio aims to ensure banks maintain adequate levels of high quality liquid assets against net cash outflows. High quality liquid assets are mainly cash and cash equivalents, reserve requirements maintained at CBRT and marketable securities that are not subject to repurchase agreements or not given as collateral. 86% of the Bank's high quality assets are cash & cash equivalents and reserve requirements maintained at CBRT; and 14% are marketable securities. Besides, time deposits, derivatives, loans up to 1 month and non-cash loans are balance sheet accounts that are significant on the ratio. 74% of cash outflows are unsecured funding, 6% are secured funding and 20% are off-balance items.

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Residual contractual maturities of monetary liabilities

31 December 2016	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	408,322	450,768	62,707	-	294,128	72,407	21,526	-
Deposits from customers	10,048,152	10,333,735	818,679	525,404	2,687,559	2,900,164	3,401,929	
Obligations under repurchase agreements	705,296	705,696	-	191,884	229,152	265,347	19,313	-
Funds borrowed	1,028,411	1,041,024	-	195,050	1,931	500,262	343,781	-
Total	**12,190,181**	**12,531,223**	**881,386**	**912,338**	**3,212,770**	**3,738,180**	**3,786,549**	**-**

31 December 2015	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	591,169	560,199	62,707	-	258,038	239,454	-	-
Deposits from customers	8,005,021	8,415,347	818,679	276,875	1,961,482	2,748,370	2,609,941	
Obligations under repurchase agreements	1,416,639	1,494,775	-	1,222,249	80,891	191,635	-	-
Funds borrowed	951,520	847,167	-	45,760	14,634	184,762	602,011	-
Total	**10,964,349**	**11,317,488**	**881,386**	**1,544,884**	**2,315,045**	**3,364,221**	**3,211,952**	**-**

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

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The table below analyses contractual maturities of derivative transactions:

	31 December 2016								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	643	645	621,247	608,580	5,415	7,252	-	-	-
Forward sale contract	-	-	593,035	580,437	5,368	7,230	-	-	-
Currency swap purchase	53,011	59,402	1,540,713	1,070,727	133,340	-	193,255	138,791	4,600
Currency swap sale	-	-	1,578,323	1,068,045	136,697	-	215,905	152,796	4,880
Interest swap purchase	-	-	224,449	-	-	-	-	211,464	12,985
Interest swap sale	-	-	224,449	-	-	-	-	211,464	12,985
Put option purchase	-	-	240,068	78,224	144,067	17,777	-	-	-
Put option sale	-	-	240,068	78,224	144,067	17,777	-	-	-
Total	**53,654**	**60,047**	**5,262,352**	**3,484,237**	**568,954**	**50,036**	**409,160**	**714,515**	**35,450**

	31 December 2015								
Derivatives financial instruments held for trading purpose:	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Forward purchase contract	572	4,147	1,126,172	463	-	-	1,125,709	-	-
Forward sale contract	-	-	1,048,625	3,655	-	-	1,044,970	-	-
Currency swap purchase	93,794	38,334	1,299,357	198,891	101,247	3,269	710,245	285,705	-
Currency swap sale	-	-	1,327,279	140,666	101,336	3,347	759,550	322,380	-
Put option purchase	-	-	79,157	-	-	-	79,157	-	-
Put option sale	-	-	79,157	-	-	-	79,157	-	-
Total	**94,366**	**42,481**	**4,959,747**	**343,675**	**202,583**	**6,616**	**3,798,788**	**608,085**	**-**

Non-cash loans

31 December 2016	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**	**Total**
Non-cash loans	-	1,194,888	53,803	938,009	902,853	178,382	**3,267,935**

31 December 2015	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**	**Total**
Non-cash loans	-	1,022,206	144,141	475,039	896,246	66,267	**2,603,899**

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

26. Financial risk management *(continued)*

(d) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1 day holding period. The VaR model used is based mainly on Monte Carlo simulation. Taking account of market data from the previous 252 days, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios and stress tests for market price movements. The VaR model used is based on and Monte Carlo simulation with using with Nelson Siegel method for yield curve and GARCH method for volatility. The VaR analysis of the Bank are not reported outside and used only by the top management.

The consolidated value at market risk as of 31 December 2016 calculated as per the statutory consolidated financial statements prepared for the 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 based on the Basel II requirements effective from 1 July 2012 is as follows:

		RWA
1	Indirect (Cash) Products	
2	Interest Rate Risk (general and specific)	719,738
3	Stock risk (general and specific)	9,525
4	Currency risk	145,625
	Commodity risk	-
5	Options	
6	Simplified Approach	-
7	Delta-Plus Method	200
8	Scenario Approach	-
9	Securitization	-
	Total	**875,088**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

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

31 December 2016	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	293,428	327,822	-	-	-	1,607,628	**2,228,878**
Loans and advances to banks and other financial institutions	161,083	198	3,842	-	-	144,186	**309,309**
Receivables from reverse repurchase transactions	59,509	-	25,554	-	-	-	**85,063**
Trading assets (including derivative assets)	157,037	3,538	3,245	806	8,188	4,763	**177,577**
Available for sale	-	73,775	22,150	460,690	652,857	-	**1,209,472**
Loans and receivables	4,401,311	901,215	1,930,621	2,555,032	289,729	47,264	**10,125,172**
Investment securities	-	-	-	-	-	-	**-**
Other assets	57,474	19,350	812	-	214	437,546	**515,396**
Total assets	**5,129,842**	**1,325,898**	**1,986,224**	**3,016,528**	**950,988**	**2,241,387**	**14,650,867**
Deposits from banks	339,700	43,997	21,286	-	-	3,339	**408,322**
Deposits from customers	6,365,333	2,271,413	473,526	249,545	-	688,335	**10,048,152**
Obligations under repurchase agreements and interbank money market borrowings	462,241	274,130	21,412	19,266	-	37,129	**814,178**
Funds borrowed	308,220	70,040	605,633	44,518	-	-	**1,028,411**
Other liabilities, provisions and equity	104,145	3,474	23,889	12,217	505	2,207,574	**2,351,804**
Total liabilities	**7,579,639**	**2,663,054**	**1,145,746**	**325,546**	**505**	**2,936,377**	**14,650,867**
Net	**(2,449,797)**	**(1,337,156)**	**840,478**	**2,690,982**	**950,483**	**(694,990)**	**-**

31 December 2015	Less than one month	1-3 months	3-12 months	1 -5 years	Over 5 year	Non-Interest	Carrying amount
Cash and balances with the Central Bank	-	190,708	-	-	-	1,416,617	**1,607,325**
Loans and advances to banks and other financial institutions	523,153	197	652	-	-	43,740	**567,742**
Receivables from reverse repurchase transactions	460,135	-	-	-	-	-	**460,135**
Trading assets (including derivative assets)	95,741	99,584	122	81	42,867	11,247	**249,642**
Available for sale	35,036	32,178	5,933	16,314	1,565,915	159	**1,655,535**
Loans and receivables	2,912,302	961,056	1,613,273	2,025,454	438,919	135,950	**8,086,954**
Investment securities	-	-	-	-	-	-	**-**
Other assets	114	422	-	89	178	485,901	**486,704**
Total assets	**4,026,481**	**1,284,145**	**1,619,980**	**2,041,938**	**2,047,879**	**2,093,614**	**13,114,037**
Deposits from banks	184,918	333,950	9,594	-	-	62,707	**591,169**
Deposits from customers	4,162,235	2,017,873	617,744	74,265	314,225	818,679	**8,005,021**
Obligations under repurchase agreements and interbank money market borrowings	638,792	692,027	85,820	-	-	-	**1,416,639**
Funds borrowed	315,415	273,335	340,707	12,557	-	9,506	**951,520**
Other liabilities, provisions and equity	109,927	232	-	460	401	2,038,668	**2,149,688**
Total liabilities	**5,411,287**	**3,317,417**	**1,053,865**	**87,282**	**314,626**	**2,929,560**	**13,114,037**
Net	**(1,384,806)**	**(2,033,272)**	**566,115**	**1,954,656**	**1,733,253**	**(835,946)**	**-**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for 2016 and 2015:

31 December 2016	**Euro %**	**USD %**	**JPY %**	**TL %**
Cash and balances with Central Bank	-	0.49	-	2.99
Loans and receivables	3.68	4.56	8.28	15.48
Financial assets at fair value through profit or loss	1.84	5.37	-	8.58
Money market placements	0.88	2.06	-	8.02
Available for sale	2.91	4.29	-	9.89
Loans and advances to customers	3.68	4.56	8.28	15.48
Investment securities	-	-	-	-
Deposits from banks	1.07	2.02	-	10.77
Deposits from customers	1.82	3.33	-	11.30
Obligations under repurchase agreements	-	1.32	-	6.34
Funds borrowed	0.47	2.71	-	6.71

31 December 2015	**Euro %**	**USD %**	**JPY %**	**TL %**
Cash and balances with Central Bank	-	0.24	-	3.00
Loans and receivables	4.12	4.69	8.64	16.15
Financial assets at fair value through profit or loss	15.77	5.46	-	10.78
Money market placements	-	-	-	10.74
Available for sale	3.74	5.74	-	8.22
Loans and advances to customers	4.12	4.69	8.64	16.15
Investment securities	-	-	-	-
Deposits from banks	1.23	1.72	-	12.92
Deposits from customers	1.60	2.27	-	12.44
Obligations under repurchase agreements	0.29	0.71	-	7.67
Funds borrowed	1.01	2.04	-	6.68

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate sensitivity of the trading and non-trading portfolios

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviours. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk resulted from banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published in the Official Gazette no. 28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

As of 31 December 2016, the economic value differences resulted from interest rate instabilities calculated on a bank-only basis for the banking book according to the relevant legislation as per the standard shock method are as follows;

Type of currency	Shocks applied (+/- basis points)	Gains/losses	Gains/equity-Losses/equity
TL	(+) 500 bps	(152,133)	(9.51) %
TL	(-) 400 bps	139,028	8.69%
USD	(+) 200 bps	(14,190)	(0.89) %
USD	(-) 200 bps	16,561	1.04%
EUR	(+) 200 bps	(23,096)	(1.44) %
EUR	(-) 200 bps	(2,019)	(0.13)%
Total (of negative shocks)		**153,570**	**9.60%**
Total (of positive shocks)		**(189,418)**	**(11.84) %**

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or else smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in profit or loss except for foreign exchange gain/loss arising from the conversion of the net investments in subsidiaries in foreign countries into TL.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2016 and 2015, on the basis of the Group's assets and liabilities at carrying amounts, categorised by currency, is shown in the following table.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2016	**USD**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and balances with the Central Bank	956,481	645,455	256,858	1,858,794
Loans and advances to banks and other financial institutions	117,358	114,612	12,356	244,326
Receivables from reverse repo transactions	8,818	68,701	-	77,519
Available for sale	829,813	216,246	-	1,046,059
Financial assets at fair value through profit or loss	354	8,280	-	8,634
Investment securities	-	-	-	-
Loans and receivables	1,419,528	1,446,363	12,547	2,878,438
Other assets	48,957	2,783	1,277	53,017
Total assets	**3,381,309**	**2,502,440**	**283,038**	**6,166,787**
Liabilities:				
Deposits from other banks	362,673	1,027,197	17,403	1,407,273
Deposits from customers	2,273,891	861,546	44,603	3,180,040
Other money market deposits	473,790	143,252	5,438	622,480
Funds borrowed	635,536	142,466	-	778,002
Other liabilities and provisions	54,450	5,122	137	59,709
Total liabilities	**3,800,340**	**2,179,583**	**67,581**	**6,047,504**
Net position on the consolidated statement of financial position	**(419,031)**	**322,857**	**215,457**	**119,283**
Off-balance sheet position:				
Net notional amount of derivatives	387,827	(209,223)	(219,368)	(40,764)
Net position	**(31,204)**	**113,634**	**(3,911)**	**78,519**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2015	**USD**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and balances with the Central Bank	1,015,137	134,929	232,234	1,382,300
Loans and advances to banks and other financial institutions	28,387	494,371	19,171	541,929
Receivables from reverse repo transactions	-	-	-	-
Available for sale	1,220,991	206,495	-	1,427,486
Financial assets at fair value through profit or loss	308	41,243	-	41,551
Investment securities	-	-		-
Loans and receivables	1,735,272	926,977	20,295	2,682,544
Other assets	100,818	49,085	1,151	151,054
Total assets	**4,100,913**	**1,853,100**	**272,851**	**6,226,864**
Liabilities:				
Deposits from other banks	105,155	222,271	45,413	372,839
Deposits from customers	2,330,717	1,571,834	39,782	3,942,333
Other money market deposits	1,028,976	119,241	-	1,148,217
Funds borrowed	623,829	147,428	-	771,257
Other liabilities and provisions	163,902	4,293	31	168,226
Total liabilities	**4,252,579**	**2,065,067**	**85,226**	**6,402,872**
Net position on the consolidated statement of financial position	**(151,666)**	**(211,967)**	**187,625**	**(176,008)**
Off-balance sheet position:				
Net notional amount of derivatives	169,155	246,826	(208,023)	207,958
Net position	**17,489**	**34,859**	**(20,398)**	**31,950**

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to currency risk sensitivity analysis

A 10 percent devaluation of the TL against the following currencies as at 31 December 2016 and 2015 would have increased/(decreased) equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2016		31 December 2015	
	Profit or loss	Equity(*)	Profit or loss	Equity(*)
USD	1,431	(3,120)	3,868	1,749
EUR	11,222	11,363	742	3,486
Other currencies	(391)	(391)	(2,040)	(2,040)
Total, net	**12,262**	**7,852**	**2,570**	**3,195**

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

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, during financial crisis, judgment is necessary requirement to interpret market data to determine the estimated fair value.

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

Fair values of loans and receivables Fair values and carrying amounts of held to maturity investments and loans and receivables as follows:

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	10,125,172	10,136,116	8,086,954	8,098,557
Held to maturity investment	-	-	-	-

Fair values of held to maturity investments are determined as Level 1 and fair values of loans and receivables are determined as Level 2.

Fair values of held-to-maturity investments are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair value of long-term fixed interest rate loans are calculated by discounting cash flows with current market interest rates. For the loans with floating interest rate and short term loans with fixed interest rate, carrying value also represents fair value.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Classification of fair value measurement

IFRS 7 – Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Bank. This distinction brings about a fair value measurement classification generally as follows:

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

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	119,321	-	-	119,321
Equity securities	4,602	-	-	4,602
Derivative financial assets held for trading	-	53,654	-	53,654
Financial assets available for sale				
Debt instruments	1,209,472	-	-	1,209,472
Total financial assets	**1,333,395**	**53,654**	**-**	**1,387,049**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading	-	60,047	-	60,047
Total financial liabilities	**-**	**60,047**	**-**	**60,047**

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	146,568	-	-	146,568
Equity securities	8,708	-	-	8,708
Derivative financial assets held for trading	-	94,366	-	94,366
Financial assets available for sale				
Debt instruments	1,655,535	-	-	1,655,535
Total financial assets	**1,810,811**	**94,366**	**-**	**1,905,177**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading	-	42,481	-	42,481
Total financial liabilities	**-**	**42,481**	**-**	**42,481**

26. Financial risk management *(continued)*

(e) Operational risk

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

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

The data and amount of operational losses, the Bank exposed to during its activities is collected and analysed regularly by Risk Management Department and reported to Board of Directors, Auditing Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2007, using gross profit of the last three years 2014, 2015 and 2016. Value at operational risk is amounting to TL 1,161,604 (31 December 2015: TL 974,613).

(f) Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the period.

26. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

The capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.29511 dated 23 October 2015 and the "Regulation on Equities of Banks" published in the Official Gazette no.28756 dated 5 September 2013. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions. In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

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

26. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis as of 31 December 2016 is as follows:

	31 December 2016	31 December 2015
Tier 1 capital	1,733,236	1,501,469
Tier 2 capital	92,554	62,250
Deductions from capital	(2,981)	(1,598)
Total regulatory capital	**1,822,809**	**1,562,121**
Risk-weighted assets	13,132,252	8,545,175
Value at market risk	875,088	1,459,425
Operational risk	974,608	974,613
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.88%	14.25%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	13.20%	13.70%

27. Events after the reporting period

None.