Alternatifbank Anonim Şirketi
and Its Subsidiaries

Consolidated Financial Statements
As at and for the Year Ended 31 December 2016
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

17 February 2017

This report contains 3 pages of independent auditors' report on consolidated financial statements and 68 pages of consolidated financial statements and notes to the consolidated financial statements.

Alternatifbank Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Alternatifbank A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Alternatifbank A.Ş. ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of the carrying value of loans and advances to banks and to customers held at amortised cost

Refer to Note 10 Loans and Advances to Customers.

The key audit matter

The appropriateness of loan loss provisions is a key area of judgment for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

How the matter was addressed in our audit

We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. For loan loss provisions calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For loan loss provisions calculated on a collective basis we tested, the underlying models including the model approval. We also tested the appropriateness and accuracy of the inputs to those models, such as recovery and cure rates, and where available, compared data and assumptions made to external benchmarks. Finally we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures for forbearance and cover values.

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

Management is responsible for the preparation and fair presentation of the 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 skepticism 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Murat Alsan
Partner

17 February 2017
Istanbul, Turkey

ALTERNATİFBANK 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 indicated)

		31 December 2016	**31 December 2015**
ASSETS			
Cash and balances with the Central Bank of Turkey	6	1,970,188	1,545,498
Loans and advances to banks	7	935,016	962,101
Financial assets held for trading		61,950	27,662
- Trading securities	*8*	526	422
- Derivative financial instruments	*9*	61,424	27,240
Loans and advances to customers	10	10,418,805	9,222,679
Investment securities		2,330,039	816,103
- Available-for-sale	*11*	*2,330,039*	*816,103*
Leasing Receivables	10	1,238,644	1,029,148
Other intangible assets	12	86,207	82,178
Property and equipment	13	36,674	29,493
Deferred income tax assets	19	79,436	44,946
Other assets	14	339,010	182,232
Total assets		**17,495,969**	**13,942,040**
LIABILITIES			
Deposits from banks	15	1,198,660	709,168
Due to customers	16	8,125,742	5,887,835
Other borrowed funds	17	3,939,977	4,262,137
Debt securities issued	18	1,041,580	877,824
Derivative financial instruments	9	70,444	14,859
Derivatives held for risk management	9	404	113
Other provisions	20	49,648	41,899
Retirement benefit obligations	21	7,722	6,364
Other liabilities	22	299,711	339,579
Subordinated liabilities	17	1,504,693	767,558
Total liabilities		**16,238,581**	**12,907,336**
EQUITY			
Share capital	23	980,000	620,000
Share premium	23	54	54
Fair value reserves	24	(165,167)	(27,437)
Legal reserves	24	28,974	24,972
Retained earnings	24	413,514	417,104
Total equity attributable to owners of the Bank		**1,257,375**	**1,034,693**
Non-controlling interests		13	11
Total equity		**1,257,388**	**1,034,704**
Total liabilities and equity		**17,495,969**	**13,942,040**

The accompanying notes form an integral part of these consolidated financial statements.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated)

	Note	2016	2015
Interest income	25	1,123,738	1,146,214
Interest expense	25	(748,356)	(601,911)
Net interest income		**375,382**	**544,303**
Fee and commission income	26	57,625	78,024
Fee and commission expense	26	(30,826)	(14,374)
Net fee and commission income		**26,799**	**63,650**
Foreign exchange gains and losses, net		43,235	44,941
Trading gains and losses, net	27	(3,132)	(87,057)
Gains / losses from investment securities, net		25,732	1,579
Operating income		**468,016**	**567,416**
Impairment losses on loans and credit related commitments, net		(179,834)	(153,920)
Other operating expenses	28	(285,899)	(291,237)
Operating expense		**(465,733)**	**(445,157)**
Profit before income tax		**2,283**	**122,259**
Income tax expense	19	(131)	(26,542)
Profit for the year		**2,152**	**95,717**
Profit attributable to:			
Equity holders of the Bank		2,150	95,718
Non-controlling interest		2	(1)
		2,152	**95,717**
Earnings per share			
Basic and diluted per share (expressed in full TL)		0.0030	0.1544

The accompanying notes form an integral part of these consolidated financial statements.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
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 indicated)

	Note	1 January 2016- 31 December 2016	1 January 2015- 31 December 2015
Profit for the year		**2,152**	**95,717**
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability	21	(2,203)	(1,905)
Related tax		441	381
		(1,762)	**(1,524)**
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value of available for sale financial assets		(192,872)	(30,188)
Net change in available for sale financial assets transferred to profit or loss		20,709	3,584
Related tax		34,433	5,321
Other comprehensive income for the year, net of income		**(139,492)**	**(22,807)**
Total comprehensive income for the year		**(137,340)**	**72,910**
Total comprehensive income attributable to			
Equity holders of the Bank		(137,342)	72,911
Non-controlling interests		2	(1)
Total comprehensive income for the year		**(137,340)**	**72,910**

The accompanying notes form an integral part of these consolidated financial statements.

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

		Attributable to equity holders of the Bank								
	Note	**Share Capital**	**Share Premium**	**Own Shares Acquired**	**Legal Reserves**	**Fair Value Reserves**	**Retained Earnings**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance at 1 January 2015		**620,000**	**119**	**(3,296)**	**20,052**	**(6,154)**	**327,292**	**958,013**	**9,215**	**967,228**
Total comprehensive income for the year										
Profit for the year		**-**	**-**	**-**	**-**	**-**	**95,718**	**95,718**	**(1)**	**95,717**
Other comprehensive income										
Net change in available for sale investments, net of tax		-	-	-	-	(21,283)	-	(21,283)	-	(21,283)
Remeasurements of defined benefit liability		-	-	-	-	-	(1,524)	(1,524)	-	(1,524)
Total other comprehensive income		**-**	**-**	**-**	**-**	**(21,283)**	**(1,524)**	**(22,807)**	**-**	**(22,807)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(21,283)**	**94,194**	**72,911**	**(1)**	**72,910**
Contributions by and distributions to owners										
Transfer to legal reserves		-	-	-	6,647	-	(6,645)	2	-	2
Purchase from non-controlling interests		-	-	-	-	-	-	-	-	-
Capital increase		-	-	-	-	-	-	-	-	-
Other		-	(65)	3,296	(1,727)	-	2,263	3,767	(9,203)	(5,436)
Balance at 31 December 2015		**620,000**	**54**	**-**	**24,972**	**(27,437)**	**417,104**	**1,034,693**	**11**	**1,034,704**
Balance at 1 January 2016		**620,000**	**54**	**-**	**24,972**	**(27,437)**	**417,104**	**1,034,693**	**11**	**1,034,704**
Total comprehensive income for the year										
Profit for the year		**-**	**-**	**-**	**-**	**-**	**2,150**	**2,150**	**2**	**2,152**
Other comprehensive income										
Net change in available for sale investments, net of tax		-	-	-	-	(137,730)	-	(137,730)	-	(137,730)
Remeasurements of defined benefit liability		-	-	-	-	-	(1,762)	(1,762)	-	(1,762)
Total other comprehensive income		**-**	**-**	**-**	**-**	**(137,730)**	**(1,762)**	**(139,492)**	**-**	**(139,492)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(137,730)**	**388**	**(137,342)**	**2**	**(137,340)**
Contributions by and distributions to owners										
Transfer to legal reserves		-	-	-	4,002	-	(4,002)	-	-	-
Purchase from non-controlling interests		-	-	-	-	-	-	-	-	-
Capital increase by cash		360,000	-	-	-	-	-	360,000	-	360,000
Other		-	-	-	-	-	24	24	-	24
Balance at 31 December 2016		**980,000**	**54**	**-**	**28,974**	**(165,167)**	**413,514**	**1,257,375**	**13**	**1,257,388**

The accompanying notes form an integral part of these consolidated financial statements.

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

	Note	1 January 2016- 31 December 2016	1 January 2015- 31 December 2015
Cash flows from operating activities			
Interest received		930,393	1,106,932
Interest paid		(736,630)	(570,645)
Fees and commissions received		58,931	78,982
Trading income		(35,550)	72,500
Recoveries of loans previously written off		107,440	105,729
Fees and commissions paid		(30,826)	(14,374)
Cash payments to employees and other parties		(144,469)	(157,199)
Cash received from other operating activities		826,166	900,618
Cash paid for other operating activities		39,653	24,463
Taxes paid		(53,780)	(38,139)
Cash flows from operating profits before changes in operating assets and liabilities		**961,328**	**1,508,867**
Changes in operating assets and liabilities:			
Trading securities		(113)	35,842
Loans and advances		(2,350,967)	(2,818,407)
Other assets		(277,505)	(229,214)
Deposits from other banks		322,341	161,428
Deposits		2,231,336	423,382
Other money market deposits		167,592	(86,664)
Other liabilities		(68,055)	(38,313)
Net cash from operating activities		**24,629**	**(2,551,946)**
Cash flows from investing activities			
Purchases of available for sale securities		(3,811,002)	(1,047,154)
Proceeds from sale and redemption of available-for-sale securities		2,298,717	1,126,159
Purchases of held to maturity securities		-	-
Redemption of held to maturity securities		-	900
Purchases of premises and equipment		(23,834)	(19,250)
Proceeds from sale property and equipment		4,580	20,008
Purchase of intangible assets, net		(4,029)	(8,250)
Net cash from investing activities		**(1,535,568)**	**72,413**
Cash flows from financing activities			
Proceeds from funds borrowed		2,040,805	3,741,697
Payments for funds borrowed		(2,484,254)	(1,604,248)
Proceeds from bond issue		1,193,300	206,761
Payments for bonds issued		-	(204,767)
Share capital increase		360,000	-
Net cash from financing activities		**1,109,851**	**2,139,443**
Net increase in cash and cash equivalents		**560,240**	**1,168,777**
Effects of foreign exchange-rate changes on cash and cash equivalents		(329,089)	(341,282)
Cash and cash equivalents at beginning of the year	**5**	**1,286,866**	**459,281**
Cash and cash equivalents at end of the year	**5**	**1,518,017**	**1,286,776**

The accompanying notes form an integral part of these consolidated financial statements.

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

NOTE 1 - GENERAL INFORMATION

Alternatifbank A.Ş. ("the Bank") was incorporated in Istanbul on 6 November 1991 and started operations in February 1992. The Bank's ordinary shares started to be traded in Istanbul Stock Exchange on 3 July 1995.

The Bank made an application to Capital Market Board and Borsa İstanbul A.Ş. about to leave the partnership and delisting the stock-exchange quotation in accordance with clauses of Capital Market Board "Squeeze-out and Sell-out Rights Communiqué" on 11 July 2015. "Capital Issue Document" prepared for the capital increase allocated to controlling shareholder Commercial Bank of Qatar in the context of the process of squeeze-out and sell-out rights from the minority in accordance with "Squeeze-out and Sell-out Rights Communiqué" has been approved by Capital Market Board on 23 July 2015. As of this date, Alternatifbank A.Ş. delisted from the stock-exchange.

As of 31 December 2016, The Commercial Bank owns 100.00% of the Bank's shares. Current shareholder structure of the Bank is as follows:

	31 December 2016		31 December 2015	
Name of Shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
The Commercial Bank	980,000	100%	465,000	75.00%
Anadolu Endüstri Holding A.Ş. (**)	-	-	106,683	17.21%
Anadolu Motor Üretim ve Pazarlama A.Ş. (**)	-	-	48,317	7.79%
Total (*)	**980,000**	**100%**	**620,000**	**100%**

(*) It is decided to increase the capital in cash by TL 150,000 with the decision of Board of Directors as of 21 January 2016, after the approval of BRSA the paid in capital is increased TL 150,000 to TL 770,000 as of 14 April 2016. With the decision of number 166 of the Board of Directors dated on 19 December 2016 and with the approval of BRSA dated on 29 December 2016, decided to increase the capital from TL 770,000 to TL 980,000. In this respect, The Commercial Bank (P.S.Q.C) was included in the capital increase with TL 210,000.

(**) With the decision number 166 of the Board of Directors dated on 19 December 2016 and with the approval of BRSA dated on 26 October 2016, 25% and 192.500.000 in the name of the holder shares of Anadolu Endüstri Holding A.Ş. was transferred to The Commercial Bank (P.S.Q.C.).

The registered office address of the Bank is at Cumhuriyet Caddesi No: 46 Elmadağ / Istanbul.

The consolidated financial statements of the Bank were authorized for issue by the management on 17 February 2017. The ultimate parent of the Bank is The Commercial Bank.

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

The operations of the Group consist of banking, leasing and portfolio management conducted mainly with local customers.

The Bank provides banking services through 53 branches (31 December 2015: 59) in Turkey. At 31 December 2016, the Group has 1,000 employees (31 December 2015: 1,107).

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

NOTE 1 - GENERAL INFORMATION (Continued)

The subsidiaries and the Bank's shareholding included in consolidation and their shareholding percentages at 31 December 2016 and 2015 are as follows:

	Place of Incorporation	Effective shareholding % 31 December 2016	Effective shareholding % 31 December 2015
Alternatif Menkul Değerler A.Ş. (1)	Istanbul/Turkey	100.00	100.00
Alternatif Finansal Kiralama A.Ş.	Istanbul/Turkey	99.99	99.99
Alternatif Portföy Yönetimi A.Ş (2)	Istanbul/Turkey	-	100.00

The principal activities of the consolidated subsidiaries are as follows:

(1) Title of "Alternatif Yatırım A.Ş." changed as "Alternatif Menkul Değerler A.Ş." and the company name registered as "A Menkul" instead of "A Yatırım" as of 19 April 2016, with the decision of General Assembly meeting, dated 7 April 2016. Alternatif Menkul Değerler A.Ş. renders brokerage and investment banking services to customers in line with the rules of the Capital Market Board of Turkey.

(2) According to the conclusion of there will be no benefits by the continuing activities of Alternatif Portföy Yönetimi A.Ş. which is owned 100% by Alternatif Yatırım A.Ş., liquidation procedures has begun after the decision of board of Alternatif Portföy Yönetimi A.Ş. dated 27 August 2014. By the same date, application made to the Capital Markets Board. Operating licence and portfolio management certificate of the Alternatif Portföy Yönetimi A.Ş. is cancelled on 5 December 2014 and its title changed as Elmadağ Dış Ticaret A.Ş. on 6 March 2015. The liquidation is approved on 23 February 2016.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of Financial Statements

The Bank and its subsidiaries located in Turkey 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"), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code.

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

The consolidated financial statements have been prepared under the historical cost convention, except for trading securities, available-for-sale securities and derivative financial instruments that have been measured at fair value.

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

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2.2 Basis of Consolidation

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

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries, as of 31 December 2016 and 31 December 2015.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The Bank also consolidates a subsidiary in which it has less than 50% shareholding since it has power to govern the financial and operating policies of such subsidiary under a statute, to appoint or remove the majority of the members of the board of directors and to cast the majority of votes at the meetings of board of directors.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Consolidation (Continued)

The equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position and statement of profit or loss, respectively.

All intra-group balances, transactions and unrealized gains on intra-group transactions are eliminated including inter-company profits and unrealized profits and losses. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2.3 Use of Estimates and Judgments

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in related accounting policies (Note 3).

2.4 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional and the Group's presentation currency.

2.5 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Due from Banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

2.7 Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

Furniture and fixtures and motor vehicles	3 years to 15 years
Office equipment	5 years
Leasehold improvements	5 years, or over the period of the lease if less than 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

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

2.8 Goodwill

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. The Group has TL 49,017 goodwill.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Patents and licenses were amortized over their useful economic lives of 15 years. Software and development costs for software were amortized over their useful economic lives of 3 years.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

2.10 Financial Assets

The Group classifies its financial assets in the following categories: trading securities; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Trading Securities

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Trading securities are initially recognised and subsequently re-measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Held-to-maturity securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available- for- sale. The investments would therefore be measured at fair value; not amortized cost.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Interest earned with holding held to maturity securities is reported as interest income.

In 2014, the Bank has sold a significant portion of its securities, classified in held to maturity portfolio as 31 December 2013 amounting TL 1,727,972 before the maturity dates of such securities. Therefore the Bank will not able to classify its investment in held to maturity portfolio for two years beginning from 1 January 2015.

Available-for-sale securities

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on re-measurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

Dividends received are included in dividend income, if any.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Starting from 24 March 2014, the Bank has hedged the fair value effects of changes in libor interest rates, fixed interest rate loans amounting TL 20,547 with maturity 3 years and TL 36,654 with maturity 5 years funding by using interest rate swaps. The both nominal value of interest rate swaps is TL 55,000 with maturity 3 years and 5 years respectively.

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ("repos"), are recognized in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method. Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability for amounts received under these agreements is included in deposits from banks.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ("reverse repos") are not recognized in the 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 the effective interest method.

Netting off Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

Recognition and Derecognition of Financial Instruments (Continued)

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, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires. 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.11 Impairment of Financial Assets

Financial assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans and held to maturity investments. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a) Significant financial difficulty of the issuer or obliger;
b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
c) 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;
d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
e) 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:
    i) Adverse changes in the payment status of borrowers; or
    ii) National or local economic conditions that correlate with defaults on the assets in the group of financial assets.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of Financial Assets (Continued)

Financial assets carried at amortized cost (continued)

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. Loans with principal and/or interest overdue for more than 90 days are considered as non-performing and are assessed for impairment.

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The Group calculates portfolio provision according to Incurred but not reported ("IBNR") model for performing loans, based on Basel II expected loss concept with intrinsic elements such as loss detection period, probability of default, loss given default and expert views. IBNR impairments on loans represent the provisions that are created not only for transaction on which loss events were individually identified, but also for these transactions where loss events have already occurred, but have not been reported yet. In such case provision is created in such proportion to the exposure that reflects the amount of losses that have been incurred as a result of the past but not reported events.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of Financial Assets (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount. There is no impairment recorded related to assets carried at cost.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assess at each reporting date if there is objective evidence that an investments is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2.12 Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank of Republic of Turkey, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2.13 Financial Liabilities

Financial liabilities including deposits from banks, due to customers and other borrowed funds are recognised initially at cost. Subsequently, financial liabilities are stated at amortised cost, including transaction costs, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

2.14 Employee Benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and are classified under "Reserve for Employee Rights" account in the statement of financial position.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation of the Group arising from this liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Employee Benefits (Continued)

According to the TAS 19 that is revised by Public Oversight Accounting and Auditing Standards Authority with the Communiqué published in Official Gazette on 12 March 2013 numbered 28585, in the calculation of the employment termination benefit liabilities of the Bank, the recognition option of the actuarial gains and losses derived from the changes in actuarial assumptions or the differences between actuarial assumptions and realizations in the income statement has been eliminated which is effective for annual periods beginning on or after 1 January 2013.

Defined Contribution Plans

For defined contribution plans the Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

2.16 Share Capital

Share capital is recognized at the nominal amount and amounts received in excess of the par value are recognized in share premium account. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction.

2.17 Leases

The Group as the lessee

Finance leases

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Leases (Continued)

The Group as the lessee

Operating leases

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

The Group as the lessor

Finance leases

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

Operating leases

Assets leased out under operating leases are included in investment property in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

2.18 Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized over the period service is provided. Fee for bank transfers and other banking transaction services are recorded as income when collected. Borrowing fees and commissions expenses paid to other financial institutions are recognized as transaction costs and recorded using the "Effective interest rate method".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Income Tax

Tax expense/ (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

Income taxes currently payable

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.

Taxes other than on income are recorded within operating expenses (Note 28).

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted, or substantively enacted, at the reporting date are used to determine deferred income tax. The principal temporary differences arise from measurement of financial assets and liabilities at fair value, loan loss provisions and provision for employment termination benefits.

Deferred income tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilised (Note 19).

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 related to the same taxable entity and the same taxation authority.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

2.20 Derivative Financial Instruments

The Group enters into transactions with derivative instruments including forwards, swaps and options 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 IAS 39, they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently re-measured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Derivative Financial Instruments (Continued)

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the reporting date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and re-pricing date are used. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not itself carried at fair value through profit or loss;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss as the hedged item).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Derivative Financial Instruments (Continued)

Fair value hedge (Continued)

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Group does not have any cash flow hedges or net investment hedges.

2.21 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

2.22 Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the statement of financial position, since such items are not treated as assets of the Group.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as originated loans. Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan.

2.24 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments

2.25 Related Parties

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the shareholders are considered and referred to as related parties (Note 32).

2.26 Adoption of new and revised standards

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated 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 Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

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 Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Adoption of new and revised standards (continued)

IFRS 16 Leases (continued)

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 Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

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 consolidated 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 Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

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 Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

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 Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Adoption of new and revised standards (continued)

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.

2.27 Earnings per share

Earnings per share disclosed in the consolidated statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	31 December 2016	31 December 2015
Profit attributable to equity holders of the Bank	2,150	95,718
Weighted average number of ordinary shares in issue (thousand)	727,796	620,000
Basic earnings per thousand share (expressed in full TL)	**0.0030**	**0.1544**

The Bank do not have diluted shares.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- **Note 4 (H)** – determination of the fair value of financial instruments with significant unobservable inputs;

- **Note 21 –** measurement of defined benefit obligations: key actuarial assumptions;

- **Note 19 –** recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;

- **Note 12** – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and

- **Notes 2.11** – Valuation of Impairment.

NOTE 4 - FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities.

Risk Management is responsible for monitoring and managing all potential risks for the Bank in a centralized and efficiently coordinated manner. The primary goal of Risk Management is to provide business lines appropriate capital allocation for risks they are exposed to and increase value-added by maximizing risk adjusted return on capital. In this connection, each business line is geared to design appropriate cost-benefit schedule to maximize its return expectation with minimum cost of capital.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Strategy in using financial instruments (continued)

The Bank's Risk Management Policy covers market, structural interest rate, credit, operational and liquidity risks management.

The risk management governance at the Bank starts with the Board of Directors. The Bank Risk Committee, Asset Liability Committee (ALCO), Credit Risk Committee (CRC), Market Risk Committee (MRC), Operational Risk Committee (ORC) and the Risk Management Department are the most important bodies of the risk management structure.

The Board of Directors determines the general risk policy and the risk appetite of the Bank. The Bank Risk Committee defines risk policies and strategies, reviews all types of risks the Bank is exposed to in its quarterly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board. The ALCO, meeting bi-weekly, is responsible for monitoring and managing any structural asset liability mismatch of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange rate risk. The CRC meets quarterly and is responsible for monitoring and evaluating the Bank's lending portfolio and determining principles and policies regarding credit risk management processes, such as loan approval, limit setting, rating, monitoring and problem management. The MRC is responsible for implementing risk policies regarding both the trading book and the investment book and establishing relevant control systems. In addition, it defines certain limits and regularly reviews these in order to limit and minimize the potential adverse effects of market conditions on the Bank's profitability and economic value. The ORC also meets quarterly and is responsible for reviewing the Bank's operational risks and defining the necessary actions to be taken to minimize these risks.

A. Credit risk

Credit risk is defined as the potential loss arising from a borrower's inability to meet its financial obligations to the Bank. Credit risk is the risk of highest concern due to its large presence on the statement of financial position. Consequently, the Bank's credit risk management framework was designed in a manner to ensure that non-performing loans are kept as low as possible. In order to keep the quality of the Bank's credit portfolio at a predefined level, the credit portfolio is regularly analysed and reported in terms of economic sectors, large exposures, rating distribution, collateral structure, non-performing loans amount, and other various aspects. In measuring credit risk, the Bank estimates the probability of default and the potential size of loss in the event of such default. Probability of default is generated by the Bank's internal rating tool and outputs for potential size of loss are derived from assessments of collateral quality and recovery rates. This grading process draws upon a scorecard containing quantitative and qualitative measures and the expertise of the Bank's credit officers. The validation and ongoing monitoring of the grading models are the responsibilities of the Risk Management Department and depending on validation results models are continuously reviewed and improved if necessary.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

Credit quality per class of financial assets is as follows;

a. Information on loans and receivables past due but not impaired:

31 December 2016	Corporate	SME	Consumer	Credit Card	Total
Past due up to 30 days	98,948	256,648	4,178	705	360,479
Past due 30-60 days	18,345	75,004	6,100	42	99,491
Past due 60-90 days	27,574	76,627	2,921	-	107,122
Total	**144,867**	**408,279**	**13,199**	**747**	**567,092**

31 December 2015	Corporate	SME	Consumer	Credit Card	Total
Past due up to 30 days	67,106	155,807	69,763	7,623	300,299
Past due 30-60 days	106,484	229,247	21,043	4,143	360,917
Past due 60-90 days	19,731	82,159	6,382	1,272	109,544
Total	**193,321**	**467,213**	**97,188**	**13,038**	**770,760**

b. Information on debt securities, treasury bills and other bills:

To determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks", international rating firm Japan Credit Rating Agency (JCR) is started to be used as a result of rotation with 31 October 2016 instead of Fitch Ratings` external risk ratings which had been used since 31 December 2012.

Japan Credit Rating Agency	Credit Quality Level	Fitch Ratings
AAA to AA-	1	AAA to AA-
A+ to A-	2	A+ to A-
BBB+ to BBB	3	BBB+ to BBB
BB+ to BB-	4	BB+ to BB-
B+ to B-	5	B+ to B-
CCC and lower	6	CCC+ and lower

31 December 2016 Japan JCR's Rating	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net) (*)	Held to Maturity Securities (Net)	Other Funds (Net)	Total
BBB- (*)	526	1,994,947	-	329,027	2,324,500
Total	**526**	**1,994,947**	**-**	**329,027**	**2,324,500**

(*) Consists of Turkish Republic government bonds, private sector bonds and treasury bills.

31 December 2015 Fitch's Rating	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net) (*)	Held to Maturity Securities (Net)	Other Funds (Net)	Total
BBB- (*)	422	667,072	-	144,149	811,643
Total	**422**	**667,072**	**-**	**144,149**	**811,643**

(*) Consists of Turkish Republic government bonds, private sector bonds and treasury bills.

c. Information on rating concentration:

The credit risk is evaluated according to Bank's internal rating system. The loans rated according to probability of default, from the best rating (above standard), to the lowest rate (substandard) are presented in the below table and at the bottom of the table there is past due loans (impaired).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

c. Information on rating concentration (continued):

"Above standard" category means that the debtor has a strong financial structure,"standard" category means that debtor has a good and sufficient financial structure, "substandard" category means that the debtor's financial structure under risk in the short and medium term.

	31 December 2016	31 December 2015
Above standard (A,B)	88.75%	86.56%
Standard (C)	4.15%	6.90%
Substandard (D)	1.64%	1.14%
Impaired (E)	5.46%	5.40%
Not rated	-	-

d. Fair value of collaterals (loans and advances to customers):

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

31 December 2016	Corporate	SME	Consumer	Credit Card	Total
Watch listed loans	184,073	220,641	10,788	276	415,778
Loans under legal follow - up	141,558	304,491	7,239	1,796	455,084
Total	**325,631**	**525,132**	**18,027**	**2,072**	**870,862**

31 December 2015	Corporate	SME	Consumer	Credit Card	Total
Watch listed loans	136,451	414,886	48,627	5,686	605,650
Loans under legal follow - up	131,388	120,557	10,675	2,608	265,228
Total	**267,839**	**535,443**	**59,302**	**8,294**	**870,878**

Type of Collaterals	31 December 2016	31 December 2015
Real-estate mortgage	821,146	843,272
Car pledge	12,437	16,480
Cash and cash equivalents	3,858	2,365
Other	33,421	8,761
Total	**870,862**	**870,878**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

e. Concentration of credit risk based on geographical regions:

	Turkey	EU	Other	Total
Cash and balances with the Central Bank of Turkey	1,970,188	-	-	1,970,188
Loans and advances to banks	923,621	11,395	-	935,016
Financial assets at fair value through profit or loss	526	-	-	526
Derivatives held for risk management	61,424	-	-	61,424
Loans and advances to customers, net	10,263,117	72,095	83,593	10,418,805
- Corporate	7,082,013	72,095	83,593	7,237,701
- SME	2,939,933	-	-	2,939,933
- Consumer	200,618	-	-	200,618
- Credit card	40,553	-	-	40,553
Investment securities	2,330,039	-	-	2,330,039
- Available-for-sale	2,330,039	-	-	2,330,039
- Held-to-maturity	-	-	-	-
Leasing receivables	1,238,644	-	-	1,238,644
Other intangible assets	86,207	-	-	86,207
Property and equipment	36,674	-	-	36,674
Deferred income tax assets	79,436	-	-	79,436
Other assets	339,010	-	-	339,010
As of 31 December 2016	**17,328,886**	**83,490**	**83,593**	**17,495,969**
As of 31 December 2015	**13,696,364**	**68,487**	**177,189**	**13,942,040**
Letter of guarantees	1,999,821	40	86,526	2,086,387
Letter of credits	260,999	1,328	3,349	265,676
Acceptance credits	3,885	-	-	3,885
Other commitments and contingencies	714,703	52,995	205,090	972,788
As of 31 December 2016	**2,979,408**	**54,363**	**294,965**	**3,328,736**
As of 31 December 2015	**3,331,277**	**52,590**	**271,453**	**3,655,320**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk (Continued)

f. Sectoral concentration:

	31 December 2016		31 December 2015	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Agricultural	**104,084**	**7,801**	**197,456**	**20,793**
Farming and raising livestock	64,514	4,859	187,882	19,684
Forestry	12,593	301	2,630	803
Fishery	26,977	2,641	6,944	306
Manufacturing	**2,774,517**	**837,837**	**2,536,250**	**803,846**
Mining	191,261	12,344	304,269	36,341
Production	1,844,986	722,440	1,883,007	698,881
Electric, gas and water	738,270	103,053	348,974	68,624
Construction	**2,501,856**	**512,219**	**1,891,491**	**647,581**
Services	**4,555,889**	**1,565,361**	**3,966,311**	**961,732**
Wholesale and retail trade	1,913,675	271,193	1,750,892	360,619
Hotel, food and beverage services	209,623	6,410	181,509	11,992
Transportation and telecommunication	527,382	90,300	589,932	181,457
Financial institutions	596,925	955,992	471,540	194,383
Real estate and renting services	264,749	73,860	185,205	1,087
Self-employment services	959,930	145,242	762,777	207,833
Education services	5,104	350	1,946	589
Health and social services	78,501	22,014	22,510	3,772
Other	**319,170**	**24,613**	**458,881**	**740,019**
Total	**10,255,516**	**2,947,831**	**9,050,389**	**3,173,971**
Non-performing loans	622,700	-	517,341	-
Allowance for individually impaired loans	(362,419)	-	(248,450)	-
Allowance for collectively impaired loans	(96,992)	(24,195)	(96,601)	(25,803)
Total	**10,418,805**	**2,923,636**	**9,222,679**	**3,148,168**

g. Carrying amounts per class of financial assets whose terms have been renegotiated:

	31 December 2016	31 December 2015
Loans and advances to customers		
- Corporate lending	172,877	93,765
- Small business lending	161,118	230,748
- Consumer lending	2,160	7,180
Total	**336,155**	**331,693**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

h. Offsetting financial assets and financial liabilities:

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

• are offset in the Group's statement of financial position; or

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

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

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

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

					Related amounts not offset in the statement of financial position		
	Types of financial assets	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
31 December 2016	Derivative financial instruments	61,424	-	61,424	-	(20,371)	41,053
31 December 2015	Derivative financial instruments	27,240	-	27,240	-	(10,388)	16,852

					Related amounts not offset in the statement of financial position		
	Types of financial assets	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral pledged**	**Net amount**
31 December 2016	Derivative financial instruments	70,444	-	70,444	-	(126,215)	(55,771)
31 December 2015	Derivative financial instruments	14,859	-	14,859	-	(37,825)	(22,966)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

B. Market Risk

Market risk is the risk of potential loss arising from the adverse effects of interest rates, exchange rates and equity price volatility inherent in the Bank's trading portfolio. The Bank calculates the regulatory capital requirement for market risk using the standardized method within the framework of Banking Regulatory and Supervision Agency guidelines. In accordance with international best practices, Value at Risk (VaR) is measured daily. VaR, which is a measure of the maximum potential loss on the trading portfolio, is calculated using the historical simulation VaR method, adjusted for EWMA (Exponentially Weighted Moving Average). In order to manage the market risk efficiently and to be consistent with the risk appetite, position limits for asset classes, an overall "Bank Risk Tolerance" and VaR limits for each risk factor are determined. Limit monitoring is done daily by the Risk Management Group. VaR results are supported by regular stress tests and scenario analysis.

The Bank utilizes back testing to verify the predictive power of the value-at-risk calculations. In back testing, theoretical gains/losses calculated by VAR on positions at the close of each business day are compared with the actual gains/losses arising from these positions on the next business day. The assumptions used in the VaR model are reviewed and revised as needed based on the results of the back testing process.

C. Currency Risk

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

The table below summarizes the Group's exposure to foreign currency exchange rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

C. Currency Risk (Continued)

31 December 2016		**Foreign currency**				
	USD	**EUR**	**Other**	**Total**	**TL**	**Total**
Cash and balances with the Central Bank of Turkey	1,451,772	37,460	331,616	1,820,848	149,340	1,970,188
Loans and advances to banks	369,274	92,622	1,691	463,587	471,429	935,016
Financial assets held for trading						
-Trading securities	35,259	18	-	35,277	26,673	61,950
Loans and advances to customers [(1)]	3,152,427	3,118,065	-	6,270,492	4,148,313	10,418,805
Investment securities						
- Available-for-sale	2,028,756	-	-	2,028,756	301,283	2,330,039
- Held-to-maturity	-	-	-	-	-	-
Other intangible assets	-	-	-	-	86,207	86,207
Property and equipment	-	-	-	-	36,674	36,674
Deferred income tax assets	-	-	-	-	79,436	79,436
Other assets [(2)]	340,449	773,640		1,114,089	463,565	1,577,654
Total assets	**7,377,937**	**4,021,805**	**333,307**	**11,733,049**	**5,762,920**	**17,495,969**
Liabilities						
Deposits from banks	379,746	89,023	500,039	968,808	229,852	1,198,660
Due to customers	2,104,857	1,429,996	19,918	3,554,771	4,570,971	8,125,742
Other borrowed funds and subordinated liabilities	3,735,632	1,639,624	-	5,375,256	69,414	5,444,670
Debt securities issued	889,656	-	-	889,656	151,924	1,041,580
Derivative financial instruments	18,566	2,591	-	21,157	49,287	70,444
Derivatives held for risk management	-	-	-	-	404	404
Other provisions	8	-	-	8	49,640	49,648
Retirement benefit obligations	-	-	-	-	7,722	7,722
Other liabilities	(58,542)	44,181	-	(14,361)	1,571,460	1,557,099
Total liabilities	**7,069,923**	**3,205,415**	**519,957**	**10,795,295**	**6,700,674**	**17,495,969**
Net balance sheet position	**308,014**	**816,390**	**(186,650)**	**937,754**	**(937,754)**	**-**
Off balance sheet derivative instruments net notional position	**(210,483)**	**(758,614)**	**192,608**	**(776,489)**	**850,975**	**74,486**
Net foreign currency position	**97,531**	**57,776**	**5,958**	**161,265**	**(86,779)**	**(74,489)**

31 December 2015						
Total assets	5,268,207	2,757,040	209,043	8,234,290	5,707,750	13,942,040
Total liabilities	6,680,060	1,808,035	235,026	8,723,121	5,218,919	13,942,040
Net balance sheet position	**(1,411,853)**	**949,005**	**(25,983)**	**(488,831)**	**488,831**	**-**
Off-balance sheet derivative instruments net notional position	1,467,888	(950,544)	25,208	542,552	(539,475)	3,077
Net foreign currency position	**56,035**	**(1,539)**	**(775)**	**53,721**	**(50,644)**	**3,077**

(1) Collective impairment allowance of TL 96,992 (31 December 2015: TL 96,601) is presented as TL balance in the table above).
(2) Other asset balance contains leasing receivables.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

C. Currency Risk (Continued)

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2016. The Group's foreign currency risk sensitivity is presented below:

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against the relevant currency.

	31 December 2016		**31 December 2015**	
	Income statement	**Equity**	**Income statement**	**Equity**
USD	9,754	9,754	5,604	5,604
EUR	5,777	5,777	(153)	(153)
Other	596	596	(77)	(77)
Total, net	**16,127**	**16,127**	**5,374**	**5,374**

	31 December 2016		**31 December 2015**	
	Income statement	**Equity**	**Income statement**	**Equity**
USD	(9,754)	(9,754)	(5,604)	(5,604)
EUR	(5,777)	(5,777)	153	153
Other	(596)	(596)	77	77
Total, net	**(16,127)**	**(16,127)**	**(5,374)**	**(5,374)**

D. Interest Rate Risk

Even though the Bank is exposed to structural interest rate risk on its statement of financial position due to the nature of its existing activities, it ensures that this risk remains within pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive statement of financial position items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value, as defined in the relevant regulation published by BRSA. Beside the BRSA standard interest rate shock scenario, other internally defined scenarios are also simulated.

Trading and non-trading risks are approved separately in the policy documents and the Market Risk Committee is given discretion in defining the tools and methodology used in measuring, monitoring and managing both trading and non-trading risks.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (Continued)

Interest rate sensitivity:

31 December 2016	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/ Equity-Losses/ Equity
	+500bps	(133,927)	(5.03)%
1.TRY	-400 bps	80,664	3.03%
	+200 bps	(42,694)	(1.61)%
2.EURO	-200 bps	42,384	1.59%
	+200 bps	(59,404)	(2.23)%
3.USD	-200 bps	77,348	2.91%
Total (For Negative Shocks)		**(236,025)**	**(8.87)%**
Total (For Positive Shocks)		**200,396**	**7.53%**

31 December 2015	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/ Equity-Losses/ Equity
	+500bps	(89,877)	(5.29)%
1.TRY	-400 bps	83,776	4.93%
	+200 bps	(24,403)	(1.44)%
2.EURO	-200 bps	19,839	1.17%
	+200 bps	23,165	1.36%
3.USD	-200 bps	(24,107)	(1.42)%
Total (For Negative Shocks)		**79,508**	**4.68%**
Total (For Positive Shocks)		**(91,115)**	**(5.37)%**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (Continued)

31 December 2016	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets						
Cash and balances with the Central Bank of Turkey	1,749,540	-	-	-	220,648	1,970,188
Loans and advances to banks	909,324	-	-	-	25,692	935,016
Financial assets held for trading	50,004	11,856	90	-	-	61,950
- Trading securities	*361*	*165*	-	-	-	*526*
- Derivative financial instruments	*49,643*	*11,691*	*90*	-	-	*61,424*
Loans and advances to customers	3,806,242	3,047,963	2,701,792	699,345	163,463	10,418,805
Investment securities	816,116	1,475,266	-	32,592	6,065	2,330,039
-Available-for-sale	816,116	1,475,266	-	32,592	6,065	2,330,039
Other intangible assets	-	-	-	-	86,207	86,207
Property and equipment	-	-	-	-	36,674	36,674
Deferred income tax assets	-	-	-	-	79,436	79,436
Other assets (*)	135,182	295,243	746,824	29,553	370,852	1,577,654
Total assets	**7,466,408**	**4,830,328**	**3,448,706**	**761,490**	**989,037**	**17,495,969**
Liabilities						
Deposits from banks	1,174,079	-	-	-	24,581	1,198,660
Due to customers	7,286,552	491,762	277	-	347,151	8,125,742
Other borrowed funds and subordinated liabilities	2,018,129	3,370,959	931	54,651	-	5,444,670
Debt securities issued	151,924	-	889,656	-	-	1,041,580
Derivative financial instruments	60,454	9,959	31	-	-	70,444
Derivatives held for risk management	404	-	-	-	-	404
Other provisions	-	-	-	-	49,648	49,648
Retirement benefit obligations	-	-	-	-	7,722	7,722
Other liabilities	61,153	7,527	31	-	1,488,388	1,557,099
Total liabilities	**10,752,695**	**3,880,207**	**890,926**	**54,651**	**1,917,490**	**17,495,969**
Net interest repricing gap	**(3,286,287)**	**950,121**	**2,557,780**	**706,839**	**(928,453)**	**-**

(*) Other assets include leasing receivables.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Interest Rate Risk (Continued)

31 December 2015	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets						
Cash and balances with the Central Bank of Turkey	1,442,488	-	-	-	103,010	1,545,498
Loans and advances to banks	933,941	-	-	-	28,160	962,101
Financial assets held for trading	7,802	19,860	-	-	-	27,662
- Trading securities	326	96	-	-	-	422
- Derivative financial instruments	7,476	19,764	-	-	-	27,240
Loans and advances to customers	4,809,616	1,599,401	2,026,163	634,641	152,858	9,222,679
Investment securities	507,843	225,045	49,992	28,341	4,882	816,103
-Available-for-sale	507,843	225,045	49,992	28,341	4,882	816,103
Other intangible assets	-	-	-	-	82,178	82,178
Property and equipment	-	-	-	-	29,493	29,493
Deferred income tax assets	-	-	-	-	44,946	44,946
Other assets (*)	103,078	242,033	600,875	66,297	199,097	1,211,380
Total assets	**7,804,768**	**2,086,339**	**2,677,030**	**729,279**	**644,624**	**13,942,040**
Liabilities						
Deposits from banks	708,683	-	-	-	485	709,168
Due to customers	5,389,865	122,878	7,801	-	367,291	5,887,835
Other borrowed funds and subordinated liabilities	2,506,980	2,515,176	7,539	-	-	5,029,695
Debt securities issued	-	142,088	735,736	-	-	877,824
Derivative financial instruments	11,379	3,480	-	-	-	14,859
Derivatives held for risk management	-	113	-	-	-	113
Other provisions	-	-	-	-	41,899	41,899
Retirement benefit obligations	-	-	-	-	6,364	6,364
Other liabilities	10,358	3,593	-	-	1,360,332	1,374,283
Total liabilities	**8,627,265**	**2,787,328**	**751,076**	**-**	**1,776,371**	**13,942,040**
Net interest repricing gap	**(822,497)**	**(700,989)**	**1,925,954**	**729,279**	**(1,131,747)**	**-**

(*) Other assets include leasing receivables.

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

	31 December 2016			**31 December 2015**		
	USD (%)	**EUR (%)**	**TL (%)**	**USD (%)**	**EUR (%)**	**TL (%)**
Assets						
Cash and balances with the Central Bank of Turkey	0.75	-	3.31	0.28	-	2.78
Loans and advances to banks	0.79	0.01	8.35	0.32	-	10.94
Money Market Placements	-	-	8.49	-	-	12.50
Financial assets held for trading	4.71	4.64	-	4.63	3.74	9.49
Investment securities						
- Available-for-sale	6.48	-	8.09	4.12	-	9.38
Loans and advances to customers	5.60	4.71	14.34	5.32	4.43	16.20
Liabilities						
Deposits from banks	3.00	2.42	9.03	1.69	1.08	9.00
Money Market Funds	0.38	-	6.80	0.38	-	6.37
Due to customers	2.81	1.53	11.28	2.27	1.40	12.36
Other borrowed funds and subordinated liabilities	5.08	2.05	7.52	2.54	1.77	7.66
Debt securities issued	3.12	-	-	3.12	-	-

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk

Liquidity risk refers to the possibility of an institution being unable to access necessary funds due to declining fund-raising capacity; The Group closely monitors its overall liquidity level and operates under strict limits based on stress conditions. To address liquidity risk, the Group has adopted a unified approach to TL and foreign currency fund-raising opportunities. The key limit puts a ceiling on the share of overnight borrowing in the current funding pool and acts as a warning signal for the senior management to adjust the composition and/or the pricing of the borrowing instruments.

The Group uses domestic and foreign markets for its liquidity needs, Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (Central Bank of the Republic of Turkey ("CBRT"), ISE, Interbank money market, ISE Settlement and Custody Bank and other markets). The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. In accordance with the "Communiqué on the Measurement and Assessment of Liquidity of the Banks", liquidity ratio of the banks on a weekly and monthly basis should not be less than 80% for foreign currency denominated assets and liabilities, and for total assets and liabilities it should not be less than 100%.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (Continued)

The following tables analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

31 December 2016	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undistributed	Total
Assets						
Cash and balances with the Central Bank of Turkey	1,970,188	-	-	-	-	1,970,188
Loans and advances to banks	935,016	-	-	-	-	935,016
Financial assets held for trading	49,652	11,690	184	424	-	61,950
- Trading securities	8	-	94	424	-	526
- Derivative financial instruments	49,644	11,690	90	-	-	61,424
Loans and advances to customers	1,811,202	2,879,948	3,717,760	1,846,432	163,463	10,418,805
Investment securities	-	32,279	759,360	1,532,335	6,065	2,330,039
- Available-for-sale	-	32,279	759,360	1,532,335	6,065	2,330,039
- Held-to-maturity	-	-	-	-	-	-
Other intangible assets	-	-	-	-	86,207	86,207
Property and equipment	-	-	-	-	36,674	36,674
Deferred income tax assets	-	-	-	-	79,436	79,436
Other assets (*)	220,953	304,495	755,959	45,936	250,311	1,577,654
Total assets	**4,987,011**	**3,228,412**	**5,233,263**	**3,425,127**	**622,156**	**17,495,969**
Liabilities						
Deposits from banks	1,198,660	-	-	-	-	1,198,660
Due to customers	7,633,703	491,762	277	-	-	8,125,742
Other borrowed funds and subordinated liabilities	261,225	2,219,736	875,430	2,088,279	-	5,444,670
Debt securities issued	151,924	-	889,656	-	-	1,041,580
Derivative financial instruments	60,680	7,527	2,237	-	-	70,444
Derivatives held for risk management	178	-	226	-	-	404
Other provisions	-	-	-	-	49,648	49,648
Retirement benefit obligations	-	-	-	-	7,722	7,722
Other liabilities	154,733	7,527	31	-	1,394,808	1,557,099
Total liabilities and equity	**9,461,103**	**2,726,552**	**1,767,857**	**2,088,279**	**1,452,178**	**17,495,969**
Net liquidity gap	**(4,474,092)**	**501,860**	**3,465,406**	**1,336,848**	**(830,022)**	**-**

(*) Other assets include leasing receivables.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (Continued)

31 December 2015	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undistributed	Total
Assets						
Cash and balances with the Central Bank of Turkey	1,545,498	-	-	-	-	1,545,498
Loans and advances to banks	962,101	-	-	-	-	962,101
Financial assets held for trading	7,484	1,369	18,478	331	-	27,662
- Trading securities	326	96	-	-	-	422
- Derivative financial instruments	7,158	1,273	18,478	331	-	27,240
Loans and advances to customers	1,794,273	2,797,434	3,127,877	1,350,237	152,858	9,222,679
Investment securities	-	-	442,651	368,570	4,882	816,103
- Available-for-sale	-	-	442,651	368,570	4,882	816,103
- Held-to-maturity	-	-	-	-	-	-
Other intangible assets	-	-	-	-	82,178	82,178
Property and equipment	-	-	-	-	29,493	29,493
Deferred income tax assets	-	-	-	-	44,946	44,946
Other assets(*)	180,814	246,234	618,006	72,026	94,300	1,211,380
Total assets	**4,490,170**	**3,045,037**	**4,207,012**	**1,791,164**	**408,657**	**13,942,040**
Liabilities						
Deposits from banks	709,168	-	-	-	-	709,168
Due to customers	5,757,156	122,878	7,801	-	-	5,887,835
Other borrowed funds and subordinated liabilities	643,268	2,388,326	744,467	1,253,634	-	5,029,695
Debt securities issued	-	142,088	735,736	-	-	877,824
Derivative financial instruments	11,379	3,480	-	-	-	14,859
Derivatives held for risk management	-	113	-	-	-	113
Other provisions	-	-	-	-	41,899	41,899
Retirement benefit obligations	-	-	-	-	6,364	6,364
Other liabilities	149,217	3,593	115	-	1,221,358	1,374,283
Total liabilities and equity	**7,270,188**	**2,660,478**	**1,488,119**	**1,253,634**	**1,269,621**	**13,942,040**
Net liquidity gap	**(2,780,018)**	**384,559**	**2,718,893**	**537,530**	**(860,964)**	**-**

(*) Other assets include leasing receivables.

The following table presents the cash flows payable by the Group under non-derivative financial liabilities remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

31 December 2016	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	1,201,119	-	-	-	1,201,119
Due to customers	7,780,848	498,580	340	-	8,279,768
Other borrowed funds	475,722	2,428,706	1,572,006	2,345,314	6,821,748
Debt securities issued	153,830	-	891,959	-	1,045,789
Total liabilities	**9,611,519**	**2,927,286**	**2,464,305**	**2,345,314**	**17,348,424**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Liquidity Risk (Continued)

31 December 2015	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	1,331,561	1,332,945	2,270,945	569,587	5,505,038
Due to customers	5,580,301	339,452	51,698	5	5,971,456
Other borrowed funds	479,842	145,760	-	894,605	1,520,207
Debt securities issued	-	145,760	725,710	-	871,470
Total liabilities	**7,391,704**	**1,963,917**	**3,048,353**	**1,464,197**	**13,868,171**

F. Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational Risk is managed based on a framework for identifying, measuring, monitoring and managing all risks within the scope of the definition of operational risk. The Bank's risk management and internal controls allow it to control and minimize operational risks effectively under a detailed set of written procedures. These procedures are readily accessible and continuously updated and include procedures to handle all contingency events.

Studies of activity-based operational risks are continuing through the Risk Control Self Assessment. These are categorized according to cause, event and effect categories as proposed by Basel II, and action has been taken for severe risks.

The Business Continuity Management Plan, prepared in order to minimize losses due to business disruption, has been implemented. Comprehensive annual testing of the Disaster Recovery Center (DRC) is conducted with the participation of business units and IT.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No, 28337 dated 28 June 2012, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2015, 2014 and 2013, as of 31 December 2016, the total amount subject to operational risk is calculated as TL 925,382 (31 December 2015: TL 938,500) and the amount of the related capital requirement is TL 74,031 (31 December 2015: TL 75,080).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

G. Capital management

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

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk, in accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

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

The Group's regulatory capital position on a consolidated basis is as follows:

	31 December 2016	**31 December 2015**
Tier I capital	1,096,436	915,236
Tier II capital	1,537,419	754,375
Deductions	(3,699)	(3,584)
Total regulatory capital	**2,630,156**	**1,666,027**
Amount subject to credit risk	14,409,797	10,777,912
Amount subject to market risk	153,188	51,463
Amount subject to operational risk	925,382	938,500
Capital adequacy ratio (%)	**16.98%**	**14.16%**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost

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

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

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and advances to banks	935,016	935,016	962,101	962,405
Available for sale financial assets	2,330,039	2,330,039	816,103	815,942
Loans and advances to customers	10,418,805	11,071,703	9,222,679	10,149,324
Financial liabilities:				
Due to customers	8,125,742	8,708,346	(*)5,683,206	6,127,509
Other borrowed funds and subordinated liabilities	5,444,670	5,613,727	5,029,695	5,586,061
Debt securities issued	1,041,580	1,043,883	877,824	881,639

(*) Precious Metal bank account is presented under bank deposits.

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

Loans and advances to banks

The fair value of overnight loans and advances to banks are considered to approximate its carrying amounts. The estimated fair values of long term interest bearing loans and advances to banks are based on discounted cash flows using prevailing money market interest rates at the reporting date with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar credit risk, currency and remaining maturity to determine their fair value.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost (Continued)

Due to customers, deposits from banks, other borrowed funds

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

The estimated fair value of other borrowings and debt securities issued without quoted market price is of estimated future cash flows expected to be paid using money market interest rates prevailing at the reporting date with similar credit risk, currency and remaining maturity.

The estimated fair value of interest bearing liabilities due to customers is based on discounted cash flows of estimated future cash flows expected to be paid.

Fair value estimation

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

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

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

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

Level 2 trading derivatives comprise forward foreign exchange contracts, interest rate swaps and currency options. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Currency options are fair valued using by using Black & Scholes method and also active market values depending on the option type.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

H. Fair value of financial assets and liabilities measured at amortised cost (continued)

The following tables present the Group's assets and liabilities that are measured at fair value at 31 December 2016 and 2015.

31 December 2016	**Level 1**	**Level 2 (*)**	**Level 3**	**Total**
Financial assets held for trading				
- Debt securities	526	-	-	526
- Derivatives	-	61,424	-	61,424
Available-for-sale financial assets				
- Investments securities - debt	2,299,913	30,126	-	2,330,039
Hedged Loans	-	57,201	-	57,201
Total assets	**2,300,439**	**148,751**	**-**	**2,449,190**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	70,444	-	70,444
Hedging Derivatives	-	404	-	404
Total liabilities	**-**	**70,848**	**-**	**70,848**

(*) Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, discount rates and foreign currency exchange rates.

31 December 2015	**Level 1**	**Level 2 (*)**	**Level 3**	**Total**
Financial assets held for trading				
- Debt securities	422	-	-	422
- Derivatives	-	27,240	-	27,240
Available-for-sale financial assets				
- Investments securities - debt	785,787	31,316	-	817,103
Hedged Loans	-	97,427	-	97,427
Total assets	**786,209**	**155,983**	**-**	**942,192**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	14,859	-	14,859
Hedging Derivatives	-	113	-	113
Total liabilities	**-**	**14,972**	**-**	**14,972**

(*) Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, discount rates and foreign currency exchange rates.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

I. Fiduciary activities

The Group provides custody services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Fiduciary capacity of the Group is as follows:

	31 December 2016	31 December 2015
Investment securities held in custody	496,926	458,199
Cheques received for collection	246,300	278,846
Customer investment security portfolio	249,254	282,335
Commercial notes received for collection	64,028	31,600
Total	**1,056,508**	**1,050,980**

NOTE 5 - CASH AND CASH EQUIVALENTS

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

	31 December 2016	31 December 2015
Cash and cash equivalents	102,047	80,440
Demand deposits with the Central Bank of Turkey	481,133	244,235
Loans and advances to banks (with original maturity less than three months)	934,837	962,101
	1,518,017	**1,286,776**

NOTE 6 - CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY

	31 December 2016	31 December 2015
Cash and cash equivalents		
Cash in hand - foreign currency	71,916	51,946
Cash in hand - TL	30,131	28,459
Other - TL	-	35
	102,047	**80,440**
Demand deposits at central banks		
Foreign currency	362,532	221,770
TL	119,209	23,074
	481,741	**244,844**
Reserve deposits at central banks		
Foreign currency	1,386,400	1,220,214
	1,386,400	**1,220,214**
Total	**1,970,188**	**1,545,498**

Banks that are established in Turkey or performing their operations by opening new branches in Turkey are subject to the Central Bank of the Republic of Turkey's Communiqué numbered 2005/1 "Required Reserves". The Bank's total domestic liabilities excluding the items stated in the Communiqué as deductibles, the deposits accepted on behalf of foreign branches from Turkey and loans obtained by the banks but followed under foreign branches constitute the required reserves liabilities.

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

NOTE 6 - CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY (Continued)

The required reserves may keep in reserve in Central Bank of Turkey as Turkish Lira, USD and/or Euro and standard gold. As of 31 December 2016, the Turkish lira required reserve ratios are determined to be within the range of 4% - 10.5% depending on the maturity structure of deposits denominated in Turkish Lira (31 December 2015: 5% - 11.5% for all Turkish lira liabilities), and the required reserve ratios for foreign currency deposits within the range of 9% - 13% (31 December 2015: 9% - 13% for all foreign currency deposits) and other foreign currency liabilities within the range of 5% - 25% (31 December 2015: 5% - 25% for all foreign currency liabilities). CBRT started to pay interest for the Turkish Lira reserve since 5 November 2015.

NOTE 7 - LOANS AND ADVANCES TO BANKS

	31 December 2016			31 December 2015		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
TL:						
Nostro/demand deposits	994	-	994	780	-	780
Time deposits	120,354	-	120,354	267,132	22,007	289,139
Interbank money market	350,081	-	350,081	350,105	-	350,105
	471,429	**-**	**471,429**	**618,017**	**22,007**	**640,024**
Foreign currency:						
Nostro/demand deposits	1,927	22,771	24,698	1,463	25,883	27,346
Time deposits	438,889	-	438,889	175,088	119,643	294,731
	440,816	**22,771**	**463,587**	**176,551**	**145,526**	**322,077**
Total	**912,245**	**22,771**	**935,016**	**794,568**	**167,533**	**962,101**

NOTE 8 - FINANCIAL ASSETS HELD FOR TRADING

	31 December 2016	**31 December 2015**
Government bonds and treasury bills	526	422
Total debt securities	**526**	**422**
Derivative financial instruments	61,424	27,240
Total financial assets held for trading	**61,950**	**27,662**

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent corporate bonds issued by companies incorporated in Turkey.

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

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

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients' needs.

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

31 December 2016	**Contract/notional**	**Fair values**	
	amount	**Assets**	**Liabilities**
Derivatives held for trading			
Currency forwards	377,711	3,547	(3,924)
Currency swaps	12,678,120	46,740	(59,907)
OTC currency options	3,080,577	11,137	(6,613)
Total	**16,136,408**	**61,424**	**(70,444)**

31 December 2015	**Contract/ notional**	**Fair values**	
	amount	**Assets**	**Liabilities**
Derivatives held for trading			
Currency forwards	334,900	3,601	(3,766)
Currency swaps	7,842,888	23,120	(10,615)
OTC currency options	2,459,202	519	(478)
Total	**10,636,990**	**27,240**	**(14,859)**

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

31 December 2016	**Contract/ notional amount**	**Fair values**	
		Assets	**Liabilities**
Derivatives held for risk management			
Interest rate swaps (*)	220,000	-	404
Total	**220,000**	**-**	**404**

(*) Starting from 24 March 2015, the Bank has hedged the possible fair value effects of changes in libor interest rates on instalment commercial loans with fixed payments and fixed interest rates amounting TL 20,547 thousand with a maturity 3 years and TL 36,654 thousand with a maturity 5 years funding by using interest rate swaps. The Bank has started to hedge the interest rate risk of such loans with two swaps transactions with a nominal value of TL 55,000 and 3 years maturity and with a nominal value of TL 55,000 and 5 years maturity on 24 March 2015 under fair value hedge accounting.

31 December 2015	**Contract/ notional amount**	**Fair values**	
		Assets	**Liabilities**
Derivatives held for risk management			
Interest rate swaps (*)	220,000	-	113
Total	**220,000**	**-**	**113**

The impact of fair value hedge accounting application is summarized below:

31 December 2016

Hedging Instrument	**Asset liability hedging**	**Risk Hedge**	**Fair value gain of hedged asset**	**Net fair value of hedging account**	
				Asset	**Liability**
Interest swap contract	Fixed interest, fixed payment commercial loans	Fixed interest rate risk	1,052	-	404

31 December 2015

Hedging Instrument	**Asset liability hedging**	**Risk Hedge**	**Fair value gain of hedged asset**	**Net fair value of hedging account**	
				Asset	**Liability**
Interest swap contract	Fixed interest, fixed payment commercial loans	Fixed interest rate risk	768	-	113

The bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in "Trading gains and losses on derivative financial instruments" account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the "Trading gains and losses on derivative financial instruments" account.

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

31 December 2016	Corporate	SME	Consumer	Credit Card	Leasing Receivables	Total
Performing loans	7,048,321	2,594,616	183,802	37,628	1,206,284	11,070,651
Loans under close monitoring	188,573	219,339	14,637	960	-	423,509
Loans under legal follow-up	195,459	338,518	13,848	5,530	69,345	622,700
Gross	**7,432,353**	**3,152,473**	**212,287**	**44,118**	**1,275,629**	**12,116,860**
Specific allowance for impairment	126,998	186,066	9,245	3,125	36,985	362,419
Collective allowance for impairment	67,654	26,474	2,424	440		96,992
Total allowance for impairment	**194,652**	**212,540**	**11,669**	**3,565**	**36,985**	**459,411**
Net	**7,237,701**	**2,939,933**	**200,618**	**40,553**	**1,238,644**	**11,657,449**

31 December 2015	Corporate	SME	Consumer	Credit Card	Leasing Receivables	Total
Performing loans	5,162,012	3,205,170	194,351	59,709	882,826	9,504,068
Loans under close monitoring	126,217	311,406	27,425	5,415	124,567	595,030
Loans under legal follow-up	195,415	253,496	17,371	9,743	51,132	527,157
Gross	**5,483,644**	**3,770,072**	**239,147**	**74,867**	**1,058,525**	**10,626,255**
Specific allowance for impairment	87,717	143,096	11,053	6,584	29,377	277,827
Collective allowance for impairment	57,995	35,811	2,039	756	-	96,601
Total allowance for impairment	**145,712**	**178,907**	**13,092**	**7,340**	**29,377**	**374,428**
Net	**5,337,932**	**3,591,165**	**226,055**	**67,527**	**1,029,148**	**10,251,827**

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

31 December 2016	**Individual Impairment**	**Collective Impairment**	**Total**
At January ,2015	277,827	96,601	374,428
Charge for the year	208,492	82,787	291,279
Collection and Recoveries	(25,881)	(82,396)	(108,277)
Amounts written off (*)	(98,019)	-	(98,019)
31 December 2016	**362,419**	**96,992**	**459,411**

(*) The Group has written-off non-performing loans under the collections campaign of TL 1,759 with a net book value of TL 200 and provision amounting to TL 1,559 in May and has sold non-performing loans of TL 99,396 with a net book value of TL 2,936 and provision TL 96,460 to Turk Asset Varlık Yönetim A.Ş. on 17 August 2016.

31 December 2015	**Individual Impairment**	**Collective Impairment**	**Total**
At January ,2015	270,813	91,604	362,417
Charge for the year	146,524	10,821	157,345
Collection and Recoveries	(6,807)	(5,824)	(12,631)
Amounts written off (*)	(132,703)	-	(132,703)
31 December 2015	**277,827**	**96,601**	**374,428**

(*) The Parent Bank has disposed non performing loan corresponds to provision amount of TL 13,839 and has collected TL 2,500 on 31 March 2016.

The Parent Bank has disposed non performing loans correspond to provision amount of TL 108,499 to Güven Varlık Yönetim A.Ş and has collected TL 4,650 on 5 May 2016.

Alternatif Finansal Kiralama A.Ş. has sold non performing loans correspond to provision amount of TL 10,365 to Artı Varlık Yönetim A.Ş and has collected TL 125 on 29 May 2016.

NOTE 11 - INVESTMENT SECURITIES

(i) Held for trading

There is no held for trading securities as at 31 December 2016 (31 December 2015: None) and other financial institutions against funds obtained under repurchase agreements.

(ii) Securities available-for-sale

	31 December 2016	**31 December 2015**
Debt securities - at fair value:		
Government bonds and treasury bills	1,751,053	436,420
Government bonds and treasury bills sold under repurchase agreements	578,986	379,683
Total securities available-for-sale	**2,330,039**	**816,103**

Available-for-sale whose total carrying amount is TL 578,986 as at 31 December 2016 (31 December 2015: TL 379,683) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

Available-for-sale securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 507,730 (31 December 2015: TL 347,792).

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey at 31 December 2016.

There are no impairments recognised for available-for-sale securities.

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

NOTE 12 - OTHER INTANGIBLE ASSETS AND GOODWILL

	31 December 2016	31 December 2015
Cost	138,605	128,830
Accumulated amortisation	(52,398)	(46,652)
Net book amount	**86,207**	**82,178**

Movements of other intangible assets were as follows:

31 December 2016

	Goodwill	Rights and Licenses	Software	Other	Total
Cost					
At 1 January	49,017	66,746	11,310	1,757	128,830
Additions	-	5,194	4,581	-	9,775
Disposals	-	-	-	-	-
At 31 December	**49,017**	**71,940**	**15,891**	**1,757**	**138,605**
Accumulated amortisation					
At 1 January	-	(39,913)	(6,739)	-	(46,652)
Amortisation charge (Note 28)	-	(2,577)	(3,169)	-	(5,746)
Disposals	-	-	-	-	-
At 31 December	**-**	**(42,490)**	**(9,908)**	**-**	**(52,398)**
Net book amount at 31 December	**49,017**	**29,450**	**5,983**	**1,757**	**86,207**

31 December 2015

	Goodwill (*)	Rights and Licenses	Software	Other	Total
Cost					
At 1 January	49,017	59,609	6,313	1,757	116,696
Additions	-	7,137	4,997	-	12,134
Disposals					
At 31 December	**49,017**	**66,746**	**11,310**	**1,757**	**128,830**
Accumulated amortisation					
At 1 January	-	(37,713)	(5,055)	-	(42,768)
Amortisation charge (Note 28)	-	(2,200)	(1,684)	-	(3,884)
Disposals					
At 31 December	**-**	**(39,913)**	**(6,739)**	**-**	**(46,652)**
Net book amount at 31 December	**49,017**	**26,833**	**4,571**	**1,757**	**82,178**

(*) In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency's authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased on 8 November 2013, 19 November 2013 and 18 December 2013, 2,727,259,500 shares amounting TL 115,585 to 95.8% of total shares from Endüstri Holding A.Ş, and 115,488,748 shares from other shareholders. The Bank has recognised TL 49,017 goodwill and TL 1,757 intangible assets on this transaction.

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

NOTE 12 - OTHER INTANGIBLE ASSETS AND GOODWILL (Continued)

In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş (AEH) and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency's authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased 2,727,259,500 shares which is 95.8% of Alternatif Finansal Kiralama ("A Lease"), the associate of AEH, with a consideration amount of TL 115,585 and 115,488,748 shares from other shareholders with a consideration amount of TL 4,894. The Bank has recognised TL 49,017 goodwill and TL 1,757 intangible assets on this transaction.

The valuation of the fair value of the equity of A Lease is made by the Bank as of November 8, 2013. Discounted cash flow method was used for determining fair value by using 3 year business plan prepared by management of the company. Growing the business plan of the A Lease stems from the company's opportunities in the sector in which it operates and new customer acquisitions. The important assumptions about the calculating recoverable amount are discount rates and terminal growth rates. The discount rate used in the calculation is 15.5% and terminal growth rate is 13.6%.

NOTE 13 - PROPERTY AND EQUIPMENT

	31 December 2016	31 December 2015
Cost	113,080	105,271
Accumulated depreciation and impairment	(76,406)	(75,778)
Net book amount	**36,674**	**29,493**

31 December 2015	Real Estates	Motor Vehicles	Other Tangible Assets	Total
Cost	1,074	28	104,169	105,271
Accumulated Depreciation (-)	16	28	75,734	75,778
Net Book Value	**1,058**	**-**	**28,435**	**29,493**
31 December 2016				
Net Book Value at Beginning of the Period	1,058	-	28,435	29,493
Additions	(133)	-	18,223	18,090
Disposals Cost	900	-	9,381	10,281
Disposals Depreciation (-)	-	-	7,615	7,615
Impairment	-	-	-	-
Depreciation (-)	(9)	-	8,252	8,243
Cost at Period End	41	28	113,011	113,080
Accumulated Depreciation at Period End (-)	7	28	76,371	76,406
Closing Net Book Value at Period End	**34**	**-**	**36,640**	**36,674**

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

NOTE 13 - PROPERTY AND EQUIPMENT (Continued)

31 December 2014	**Real Estates (*)**	**Motor Vehicles**	**Other Tangible Assets**	**Total**
Cost	1,710	28	101,758	103,496
Accumulated Depreciation (-)	16	28	71,851	71,895
Net Book Value	**1,694**	**-**	**29,907**	**31,601**
31 December 2015				
Net Book Value at Beginning of the Period	1,694	-	29,907	31,601
Additions	180	-	10,232	10,412
Disposals Cost	816	-	7,819	8,635
Disposals Depreciation (-)	-	-	4,992	4,992
Impairment	-	-	-	-
Depreciation (-)	-	-	8,876	8,876
Cost at Period End	1,074	28	104,169	105,271
Accumulated Depreciation at Period End (-)	16	28	75,734	75,778
Closing Net Book Value at Period End	**1,058**	**-**	**28,435**	**29,493**

(*) They are acquired with the purchase of Alternatif Finansal Kiralama A.Ş.

As at 31 December 2016, there is no provision for impairment on property and equipment (31 December 2015: None).

NOTE 14 - OTHER ASSETS

	31 December 2016	**31 December 2015**
Collaterals given for derivative transactions	126,215	37,825
Repossessed property	95,663	50,449
Prepaid expenses	43,202	33,917
Pos Receivables	43,201	27,394
Others	30,729	32,647
Total	**339,010**	**182,232**

Assets held for resale represents mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law.

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

NOTE 15 - DEPOSITS FROM BANKS

	31 December 2016			31 December 2015		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Foreign banks	23,938	631,802	655,740	360	332,946	333,306
Funds deposited under repurchase agreements	-	313,068	313,068	-	116,444	116,444
	23,938	**944,870**	**968,808**	**360**	**449,390**	**449,750**
TL:						
Domestic banks	643	-	643	98	17,008	17,106
Foreign Banks	-	15,862	15,862	28	-	28
Funds deposited under repurchase agreements	-	213,347	213,347	-	242,284	242,284
	643	**229,209**	**229,852**	**126**	**259,292**	**259,418**
Total	**24,581**	**1,174,079**	**1,198,660**	**486**	**708,682**	**709,168**

NOTE 16 - DUE TO CUSTOMERS

	31 December 2016			31 December 2015		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	54,821	970,970	1,025,791	44,633	1,017,226	1,061,859
Commercial deposits	140,718	2,388,262	2,528,980	157,154	1,067,171	1,224,325
	195,539	**3,359,232**	**3,554,771**	**201,787**	**2,084,397**	**2,286,184**
TL deposits:						
Saving deposits	52,408	1,765,262	1,817,670	49,990	1,831,367	1,881,357
Commercial deposits	93,436	2,654,097	2,747,533	98,351	1,604,779	1,703,130
Public sector deposits	5,768	-	5,768	17,164	-	17,164
	151,612	**4,419,359**	**4,570,971**	**165,505**	**3,436,146**	**3,601,651**
Total	**347,151**	**7,778,591**	**8,125,742**	**367,292**	**5,520,543**	**5,887,835**

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

NOTE 17 - OTHER BORROWED FUNDS AND SUBORDINATED LIABILITIES

	31 December 2016	31 December 2015
Foreign institutions and banks		
Syndication loans	773,800	1,011,645
Subordinated liabilities	1,504,693	767,558
Other	2,469,115	2,562,988
Total foreign	**4,747,608**	**4,342,191**
Domestic banks	697,062	687,504
Total domestic	**697,062**	**687,504**
Total	**5,444,670**	**5,029,695**

The details of subordinated loans of the Bank as of 31 December 2016 are presented in the table below:

Lender	Amount ('000)	Opening Date	Maturity	Interest Rate (%)
Foreign Capital Market Investors	USD 300,000	15 April 2016	10 years+1 day	8.75%
The Commercial Bank (P.S.Q.C)	USD 125,000	30 June 2015	10 years+1 day	Libor + 6.00

NOTE 18 – DEBT SECURITIES ISSUED

	31 December 2016	31 December 2015
Debt securities at amortised cost-fixed interest rate	1,041,580	877,824
Debt securities at amortised cost-variable interest rate	-	-
Total	**1,041,580**	**877,824**

The Bank issued 250 million bond with five year maturity and coupon rate of 3.13%, all sold to investors in overseas markets on 21 July 2014.

NOTE 19 – TAXATION

	31 December 2016	31 December 2015
Current tax expense	(2,074)	(24,664)
Deferred tax (expense)/income	1,943	(1,878)
	(131)	**(26,542)**

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

Under the Corporate Tax Law numbered 5520, the applicable corporate tax rate is 20% for 31 December 2016 (31 December 2015: 20%). Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year.

Payments will be carried out in single instalment until the end of the month in which the tax return is to be filed.

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

NOTE 19 – TAXATION (Continued)

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

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their quarterly determined corporate income. Advance tax return is filed by the 14th of the second month following the each quarterly period and is payable on the 17th of the same month, Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to offset against other liabilities to the government.

Reconciliation of income tax expense:

	31 December 2016	31 December 2015
Profit before tax after monetary gain	**2,283**	**122,259**
At Turkish statutory income tax rate of 20%	457	24,452
Disallowed expenses	22,509	20,784
Other non-taxable items	(20,823)	(13,130)
Other	(2,012)	(5,564)
Income tax expense	**131**	**26,542**

In Turkey, there is no procedure for a final and definitive agreement on tax assessments, Tax authorities have the right to audit tax declarations and accounting records for 5 years, and may issue re-assessment based on their findings for tax purposes.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years, Tax losses cannot be carried back to offset profits from previous periods.

75% of the capital gains of corporations' from sale of participation shares and property which have been in their assets at least for two years is exempt from corporate tax provided that this amount is kept in a special reserve account in the liabilities side of the statement of financial position for 5 years.

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

NOTE 19 - TAXATION (Continued)

Deferred income taxes

For all subsidiaries and the Bank , deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2016 under the liability method using a principal tax rate of 20% at 31 December 2016 (31 December 2015: 20%).

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

	31 December 2016	**31 December 2015**
Profit before tax after monetary gain		
Deferred Tax Assets		
Tangible Assets Base Differences	(1,444)	(714)
Provisions	25,392	27,171
Valuation of Financial Assets	42,060	1,436
Deferred Commission Income	4,035	2,601
Investment Incentive	8,313	14,120
Financial Losses	1,080	332
Net Deferred Tax Assets	**79,436**	**44,946**

The movements of deferred income taxes at 31 December were as follows:

	31 December 2016	**31 December 2015**
1 January	**44,946**	**41,482**
Charge for the year	34,490	3,464
- *Profit and loss*	(1,943)	(1,878)
- *Other comprehensive income*	36,433	5,342
31 December	**79,436**	**44,946**

At 31 December 2016, there are no deductible temporary differences for which no deferred tax asset is recognised in the statement of financial position (31 December 2015: None).

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

NOTE 20 - OTHER PROVISIONS

	31 December 2016	31 December 2015
Provision for losses on credit related commitments	24,195	25,803
Other legal provision	13,727	7,780
Other	11,726	8,316
Total	**49,648**	**41,899**

Other legal provisions

At 31 December 2016 the Group is involved in number of legal disputes, The Group's lawyers advise that, owing to developments in some of these cases; it is probable that the Group will be found liable. Therefore, the management has recognised a provision of TL 13,727 (31 December 2015: TL 7,780) as the best estimate of the amount to settle these potential obligations.

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS

	31 December 2016	31 December 2015
Reserve for defined benefit obligation	7,722	6,364
Balance at the end of the period	**7,722**	**6,364**

Under the Turkish Labour Law, the Parent Bank and its subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires. There are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of full TL 4,297.21 (31 December 2015: full TL 3,828.37) for each year of service.

Movement of employee termination benefits:

	31 December 2016	31 December 2015
Prior Period Ending Balance	**6,364**	**4,864**
Current Period Service Cost	748	599
Interest Cost	605	548
Paid Compensation	(5,284)	(5,263)
Termination Cost	3,086	3,712
Actuarial Gain/(Loss)	2,203	1,904
Balance at the end of the period	**7,722**	**6,364**

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

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

NOTE 21 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

	31 December 2016	31 December 2015
Discount rate (%)	4.72	3.18
The probability of retirement (%)	83.33	83.33

NOTE 22 - OTHER LIABILITIES

	31 December 2016	31 December 2015
Blocked accounts	127,626	157,515
Cheques in collection	44,613	91,239
Taxes other than income and withholdings	17,496	22,428
Collaterals received for derivatives	20,371	10,388
Bonus accrual for personnel	11,560	9,560
Provision for unused vacation	2,752	2,961
Other	75,293	45,488
Total	**299,711**	**339,579**

NOTE 23 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Company consists of 980 million (31 December 2015: 620 million) authorised shares with a nominal value of TL 1 each. The Company's authorised capital amounts to TL 980,000 (31 December 2015: TL 620,000).

	31 December 2016		31 December 2015	
Shareholders	**Participation rate (%)**	**TL thousand**	**Participation rate (%)**	**TL thousand**
The Commercial Bank (P.S.Q.C.)	100%	980,000	75.00%	465,000
Anadolu Endüstri Holding A.Ş. (**)	-	-	17.21%	106,683
Anadolu Aktif Teşebbus ve Makine Ticaret A.Ş. (**)	-	-	7.79%	48,317
Historical share capital (*)	**100%**	**980,000**	**100%**	**620,000**
Share premium		54		54
Total share capital and share premium		**980,054**		**620,054**

(*) It is decided to increase the capital in cash by TL 150,000 with the decision of Board of Directors as of 21 January 2016, after the approval of BRSA the paid in capital is increased TL 150,000 to TL 770,000 as of 14 April 2016. With the decision of number 166 of the Board of Directors dated on 19 December 2016 and with the approval of BRSA dated on 29 December 2016, decided to increase the capital from TL 770,000 to TL 980,000. In this respect, The Commercial Bank (P.S.Q.C) was included in the capital increase with TL 210,000. Registration process is continuing.

(**) With the decision number 166 of the Board of Directors dated on 19 December 2016 and with the approval of BRSA dated on 26 October 2016, 25% and 192.500.000 in the name of the holder shares of Anadolu Endüstri Holding A.Ş. was transferred to The Commercial Bank (P.S.Q.C.).

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

NOTE 24 - RETAINED EARNINGS AND OTHER RESERVES

	31 December 2016	**31 December 2015**
Legal Reserves	28,974	24,972
Fair value reserve	(165,167)	(27,437)
Total other reserves	**(136,193)**	**(2,465)**
Retained earnings	**413,514**	**417,104**

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

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

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

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

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

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

NOTE 25 - NET INTEREST INCOME

	31 December 2016	31 December 2015
Interest income on:		
Loans and advances to customers	861,204	967,077
Investment securities	98,275	59,991
Money market transactions	75,360	37,624
Trading securities	771	862
Other	88,128	80,660
Total interest income	**1,123,738**	**1,146,214**
Interest expense on:		
Due to customers	491,134	416,476
Repurchase agreements	193,829	123,113
Deposits from banks	39,112	35,096
Debt securities issued	21,697	24,364
Other	2,584	2,862
Total interest expense	**748,356**	**601,911**
Net interest income	**375,382**	**544,303**

NOTE 26 - NET FEE AND COMMISSION INCOME

	31 December 2016	31 December 2015
Fee and commission income on:		
Letter of guarantee	29,153	31,862
Insurance	2,804	3,076
Account management	1,490	2,591
Money transfers	1,642	1,951
Expertise	1,836	1,839
Brokerage	-	3,433
Other	20,700	33,272
Total fee and commission income	**57,625**	**78,024**
Fee and commission expense on:		
FX transactions	12,099	-
Debit cards	1,991	6,327
CBRT Interbank money market transactions	1,330	1,278
Effective and future transactions	1,211	287
Correspondent banks	806	797
Money transfers	369	463
Other	13,020	5,222
Total fee and commission expense	**30,826**	**14,374**
Net fee and commission income	**26,799**	**63,650**

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

NOTE 27 - TRADING GAINS AND LOSSES, NET

	31 December 2016	31 December 2015
Trading securities	59,177	(71,633)
Derivative financial transactions	(62,309)	(15,424)
Net (Loss)/Income	**(3,132)**	**(87,057)**

Net trading income from derivative financial instruments includes gains and losses from spot and forward contracts, options, futures, and swaps due to changes in interest rates.

NOTE 28 - OTHER OPERATING EXPENSES

	31 December 2016	31 December 2015
Staff costs	**158,869**	**170,937**
Depreciation on property and equipment (Note 13)	8,243	8,876
Amortisation of intangible assets (Note 12)	5,746	3,884
Depreciation and amortisation	**13,989**	**12,760**
Operational lease expenses	30,405	32,062
Sundry taxes	11,950	18,464
Marketing and advertisement costs	4,472	1,818
Repair and maintenance expenses	1,131	1,335
Other	65,083	53,861
General administrative expenses	**113,041**	**107,540**
Total	**285,899**	**291,237**

Reserve for employment termination benefit, accrual for unused vacation rights and provision for personnel bonus are included in the staff costs in the table above.

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

NOTE 29 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

	31 December 2016		31 December 2015	
	Assets	**Related liability**	**Assets**	**Related liability**
Trading securities (Note 9)	-	404	-	113
Investment securities (Note 11)	578,986	526,415	379,683	358,823
Other assets pledged [1]	126,215	20,371	37,825	10,388
Total	**705,201**	**547,190**	**417,508**	**369,324**

(1) Other assets pledged are the collaterals given to the counter parties of the derivative financial instruments and other collaterals given.

Held for trading, available-for-sale and held-to-maturity securities whose total carrying amount is TL 578,986 as of 31 December 2016 (31 December 2015: TL 379,683) are pledged to banks and other financial institutions against funds obtained under repurchase agreements (Note 15 and Note 16).

Total amount of funds obtained under repurchase agreements is TL 486,394 of 31 December 2016 (31 December 2015: TL 358,023).

Held for trading, available-for-sale and held-to-maturity securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 507,730 (31 December 2015: TL 347,792).

At 31 December 2016, the Group's reserve deposits that are not available to finance the Group's day-to-day operations amount to TL 1,386,400 (31 December 2015: TL 1,220,214).

NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 31 December 2016 and 2015.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 20).

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

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

NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Credit related commitments

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

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

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

The following table shows the outstanding credit related commitments of the Group:

31 December 2016 [1]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	265,676	-	-	265,676
Letter of guarantees	6,140	2,080,247	-	-	2,086,387
Acceptance credits	-	3,885	-	-	3,885
Other commitments	972,788	-	-	-	972,788
Total	**978,928**	**2,349,808**	**-**	**-**	**3,328,736**

31 December 2015 [1]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	102,820	226,550	16,356	345,726
Letter of guarantees	2,241,064	-	-	-	2,241,064
Acceptance credits	-	4,236	31,613	-	35,849
Other commitments	1,011,861	20,820	-	-	1,032,681
Total	**3,252,925**	**127,876**	**258,163**	**16,356**	**3,655,320**

(1) Based on original maturities

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

NOTE 31 - SEGMENT ANALYSIS

The Group is organized into two main business segments which are organized and managed separately according to the nature of the products and services provided.

31 December 2016	Commercial Banking	Investment Banking	Other	Group
Net interest income [1]	400,420	(25,038)	-	375,382
Net fees and commission income and other operating income/expense [1]	25,094	1,705	-	26,799
(Provisions for) / recoveries from impairment loan receivables [1]	(179,680)	(154)	-	(179,834)
Trading gain / loss	5,888	59,947	-	65,835
Other operating expenses [1]	(274,498)	(11,401)	-	(285,899)
Profit before income tax	**(22,776)**	**25,059**	**-**	**2,283**
Tax provision				(131)
Profit after income tax				**2,152**
Non-controlling interest	-	-	-	2
Net profit	**(22,776)**	**25,059**	**(131)**	**2,152**
Asset and liabilities				
Segment assets	11,708,362	4,961,147	826,460	17,495,969
Total assets	**11,708,362**	**4,961,147**	**826,460**	**17,495,969**
Segment liabilities	9,866,067	3,595,904	2,776,610	16,238,581
Unallocated liabilities	127,626	19,829	1,109,933	1,257,388
Total liabilities	**9,993,693**	**3,615,733**	**3,886,543**	**17,495,969**

(1) Classification differences with income statement exist since business reporting of the Bank was used.

31 December 2015	Commercial Banking	Investment Banking	Other	Group
Net interest income [1]	582,431	(39,095)	967	544,303
Net fees and commission income and other operating income/expense [1]	60,320	3,330	-	63,650
(Provisions for) / recoveries from impairment loan receivables [1]	(150,548)	(3,372)	-	(153,920)
Trading gain / loss	(984)	(39,553)	-	(40,537)
Other operating expenses [1]	(281,456)	(9,781)	-	(291,237)
Profit before income tax	**209,763**	**(88,471)**	**967**	**122,259**
Tax provision				(26,542)
Profit after income tax				**95,717**
Non-controlling interest	-	-	(1)	(1)
Net profit	**208,175**	**(87,826)**	**(24,632)**	**95,717**
Asset and liabilities				
Segment assets	10,403,625	2,901,045	637,370	13,942,040
Total assets	**10,403,625**	**2,901,045**	**637,370**	**13,942,040**
Segment liabilities	7,180,942	3,727,150	1,999,244	12,907,336
Unallocated liabilities	112,989	20,612	901,103	1,034,704
Total liabilities	**7,293,931**	**3,747,762**	**2,900,347**	**13,942,040**

(1) Classification differences with income statement exist since business reporting of the Bank was used.

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

NOTE 32 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by Commercial Bank of Qatar owning 100.00% of the ordinary shares.

The Parent Bank's agency agreement with Alternatif Yatırım A.Ş. is cancelled on 31 December 2015.

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

(i) Balances with related parties:

	31 December 2016		31 December 2015	
	Total	**Share in total %**	**Total**	**Share in total %**
Loans and advances to customers, net	18,795	0.18	210,752	2.29
Total assets	**18,795**	**0.18**	**210,752**	**2.29**
Due to customers	21,532	0.26	350,691	5.96
Total liabilities	**21,532**	**0.26**	**350,691**	**5.96**
Credit related commitments	80,452	2.42	79,905	2.41
Total commitments and contingent liabilities	**80,452**		**79,905**	

(ii) Transactions with related parties:

	31 December 2016		31 December 2015	
	Total	**Share in total %**	**Total**	**Share in total %**
Interest income on loans and advances to customers	122	0.01	9,127	0.94
Commission income on credit related commitments	30	-	10,647	-
Total interest and fee income	**152**		**19,774**	
Interest expense on deposits	29,354	5.98	82,661	19.85
Other operating expense	-	-	-	-
Total interest and fee expense	**29,354**	**-**	**82,661**	

(iii) Balances with directors and other key management personnel:

Salaries and other benefits paid to the Group's key management approximately amount to TL 22,736 as of 31 December 2016 (31 December 2015: TL 21,586).

NOTE 34 – SUBSEQUENT EVENTS

On February 9, 2017, Fitch Ratings has downgraded Turkey's Long-Term Foreign Currency Issuer Default Rating (IDR) to 'BB+' from 'BBB-'. The issue ratings on Turkey's senior unsecured foreign currency bonds have also been downgraded to 'BB+' from 'BBB-'.

Fitch Ratings: February 2017	
Foreign Currency	
Long Term	BBB- (Stable)
Short Term	F3
Local Currency	
Long Term	BBB- (Stable)
Short Term	F3
National Rating	AAA(tur) (Stable)
Support Rating	2
Viability Rating	b+