TÜRK EKONOMİ BANKASI
ANONİM ŞİRKETİ

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016

pwc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türk Ekonomi Bankası A.Ş.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türk Ekonomi Bankası A.Ş. (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC") and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

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.

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Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and receivables *Please see Note 7 in the consolidated financial statements.* *We focused on this area due to the size of loans and receivables, level of judgement applied by management in determining timing of recognition of impairment and the estimation of the size of any such impairment.* *In particular we focused on:* • *Identification of loss events, which requires judgement to determine whether a loss has been incurred;* • *Judgements applied to calculate impairment provisions, such as the methodologies used for impairment calculated on a modeled basis, forecasts for future cash flows and valuation of collaterals;* • *The principal assumptions underlying the calculation of impairment provisions for collectively assessed portfolios , the models used to make the calculations and adjustments made to the results of these models.*	We assessed and tested the design and operating effectiveness of the controls over the monitoring, identification of which loans and receivables are impaired and the calculation of impairment provisions. We determined that we could rely on these controls for the purpose of our audit. We understood management's basis for determining whether a loan is impaired and assessed the reasonableness using our understanding of the Group's lending portfolios and our industry knowledge. In this context, we tested a sample of performing loans and receivables to ascertain whether the loss event had occurred and whether the loss event had been identified in a timely manner. Furthermore, we tested a sample of loans and receivables which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties. For customers in sectors that are currently experiencing difficult market conditions, we increased the size of our sample testing for cases individually assessed also including customers identified on watch-list. We tested individually impaired loans on a sample basis. Within the context of our detailed testing, we checked management's calculations by testing the forecasts of future cash flows prepared for impairment calculation, challenged the assumptions and compared estimates to external evidence where available.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and receivables (continued)	Where impairment was calculated on a modelled basis, we understood and assessed the methodology that has been applied by the management. We tested data transfer from source system to impairment models and assessed whether historic experience was representative of current circumstances and of the recent losses incurred in the portfolio. Where changes had been made in parameters and assumptions, we understood the reason why changes had taken place and evaluated the appropriateness of such changes. Finally, we traced management's calculations and model output to general ledger. For the collectively assessed portfolios, we performed detailed testing on a sample of new and existing models used to calculate provision for unidentified impairment. This testing was varied by portfolio, but typically included assessment of parameters and assumptions in the models, re-performance of calculation on a sample basis, testing the extraction of data used in the models including the bucketing into delinquency bandings, where relevant. We tested a sample of post model adjustments, including considering the basis for the adjustment, the logic applied, the source data used and the key assumptions adapted. Based on the evidence obtained we concluded that identification of impairment events, the principal assumptions used and the impairment provisions are reasonable.

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Key audit matter	How our audit addressed the key audit matter
Valuation of Pension Obligations *Please see Note 16 in the consolidated financial statements* *We focused on this area, because small changes in assumptions can result in material impacts to the net pension asset or liability.* *The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. These pension obligations are calculated with reference to a number of actuarial assumptions and inputs, including discount rate, rate of inflation and mortality rates.* *The treatment of curtailments, settlements, past service costs, remeasurements and other amendments can significantly impact the statement of financial position and results of the Group.*	We understood and tested key controls over the completeness and accuracy of data supplied to the independent actuarial company, which is used for the fair value calculation of pension assets and estimation of obligations. In addition, we tested a sample of the employee data used in calculating the obligation for accuracy. We tested the existence and fair value of the pension's assets. We also obtained an understanding of the process for determining and approving the underlying assumptions and valuations used by the independent actuary. We found no material exceptions in these tests. We engaged our actuarial specialists and met with management and their independent actuary to understand the judgements made in determining key economic assumptions used in the calculation of the liability. We assessed the reasonableness of those assumptions by comparing to our own independently determined benchmarks and concluded the assumptions used by management were appropriate. Based on the evidence obtained, we found that the data and assumptions used by management in the actuarial valuations and the fair value of the scheme assets are within a range we consider to be reasonable.

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.

Auditor's 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 auditor's 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 ISA 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 ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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 auditor's 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 auditor's 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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Engin Çubukçu, SMMM
Partner

Istanbul, 24 February 2017

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TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and balances with central banks	5	11,825,595	10,043,059
Loans and receivables due from banks	5	1,898,629	2,479,512
Other money market placements	5	2,001,067	206
Financial assets at fair value through profit and loss	6,18	1,272,822	699,939
Derivatives used for hedging purposes	18	195,320	58,309
Available-for-sale financial assets	6	4,106,390	4,130,624
Loans and receivables	7	55,384,925	51,525,147
Remeasurements adjustment on interest rate risk hedged portfolios		-	1,913
Factoring receivables	8	1,684,024	1,212,252
Held-to-maturity investments	6	361,508	339,417
Premises and equipment	9	245,035	285,508
Intangible assets	10	84,699	52,350
Goodwill	11	420,645	420,645
Deferred tax asset	17	148,211	154,768
Other assets	12	1,302,130	1,367,100
Total assets		**80,931,000**	**72,770,749**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks	13	180,985	114,557
Customers' deposits	13	49,630,201	44,263,075
Other money market deposits	13	1,457,750	2,384,787
Financial liabilities at fair value through profit and loss	18	942,614	519,397
Derivatives used for hedging purposes	18	284,492	159,216
Factoring payables		17,688	15,356
Debt securities	14	739,302	270,663
Funds borrowed:			
- Subordinated debt	15	2,296,100	1,935,054
- Other funds borrowed	15	14,486,974	12,919,415
Other liabilities	16	2,410,700	2,389,275
Provisions	16	320,185	236,871
Income taxes payable	17	1,509	109,955
Total liabilities		**72,768,500**	**65,317,621**
EQUITY			
Equity attributable to equity holders of the parent		**8,154,677**	**7,445,658**
Share capital issued	19	2,204,390	2,204,390
Premium in excess of par		2,565	2,565
Adjustment to share capital		200,262	200,262
Unrealized (losses)/gains on available-for-sale investments, net of tax	20	(57,484)	(8,059)
Reserve for hedging funds, net of tax	20	30,509	80,943
Remeasurements on employee benefits		33,673	37,368
Other reserves	20	1,084,258	1,084,258
Retained earnings	20	4,656,504	3,843,931
Non-controlling interest		**7,823**	**7,470**
Total equity		**8,162,500**	**7,453,128**
Total liabilities and equity		**80,931,000**	**72,770,749**

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF INCOME

	Notes	1 January - 31 December 2016	1 January - 31 December 2015
Interest income			
Interest on loans and receivables		6,661,488	5,748,495
Interest on securities		468,516	389,979
-Interest on available for sale		393,349	340,131
-Interest on held for trading		46,312	22,100
-Interest on held to maturity		28,855	27,748
Interest on due from banks		127,473	122,858
Interest on other money market placements		24,214	50,011
Interest income on hedging derivatives		641,922	669,188
Other interest income		2,309	1,008
Total interest income		**7,925,922**	**6,981,539**
Interest expense			
Interest on customer deposits		(3,206,561)	(2,620,037)
Interest on other money market deposits		(179,434)	(153,481)
Interest on debt securities		(37,759)	(40,637)
Interest on funds borrowed and deposits from other banks		(351,501)	(355,178)
Interest on hedging derivatives		(691,116)	(630,761)
Total interest expense		**(4,466,371)**	**(3,800,094)**
Net interest income		**3,459,551**	**3,181,445**
Fees and commissions and other operating income			
Fees and commissions income	26	1,431,887	1,502,152
Fees and commissions expenses	26	(464,101)	(489,116)
Net loss on financial instruments at fair value through profit or loss	25	(336,412)	(612,810)
Net gain on investment securities		104,096	23,618
Net loss from other activities		(122,714)	(101,172)
Net banking income		**4,072,307**	**3,504,117**
Operating expenses			
Salaries and employee benefits expense	23	(1,123,896)	(1,024,499)
Other operating expenses	24	(774,442)	(722,102)
Depreciation and amortization expense	9,10	(138,003)	(126,747)
Taxes other than on income		(94,421)	(93,654)
Gross operating income		**1,941,545**	**1,537,115**
Provisions for impairment of loan, factoring receivables, net of recoveries	7,8,16	(911,708)	(606,209)
Net operating income		**1,029,837**	**930,906**
Gains on sale of fixed assets, net		123	863
Profit from operating activities before income tax		**1,029,960**	**931,769**
Income tax – current	17	(183,418)	(213,119)
Income tax – deferred	17	(32,778)	19,337
Net profit for the year from continuing operations		**813,764**	**737,987**
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations	3	-	101,737
Profit for the year		**813,764**	**839,724**
Attributable to :			
Equity holders of the Parent		812,573	838,738
Non-controlling interest		1,191	986
		813,764	**839,724**
Basic earnings per share (full TL)	21	0.3686	0.3805
Diluted earnings per share (full TL)	21	0.3686	0.3805
Basic and diluted earnings per share from continuing operations (full TL)	21	0.3686	0.3343

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1 January - 31 December 2016	**1 January - 31 December 2015**
Profit for the year	**813,764**	**839,724**
Other comprehensive income		
Items that are or may be reclassified to profit or loss	**(99,866)**	**80,696**
Fair value gains on available-for-sale financial assets, (net of tax)	(49,432)	16,254
Net change in fair values	26,908	35,481
Net amount transferred to income	(76,340)	(19,227)
Cash flow hedge (Effective portion of changes in fair value), (net of tax)	(50,434)	141,061
Currency translation differences	-	(76,619)
Items that will not be reclassified to profit or loss	**(3,711)**	**17,813**
Remeasurement of post-employment benefits obligation, (net of tax)	(3,711)	17,813
Other comprehensive (loss)/income for the period, net of tax	**(103,577)**	**98,509**
Total comprehensive income for the year, net of tax	**710,187**	**938,233**
Attributable to:		
Owners of the Parent	709,019	937,305
Non-controlling interest	1,168	928
Total comprehensive income for the year	**710,187**	**938,233**

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

						Attributable to Owners of the Parent								
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Other capital reserves	Unrealized gains/(losses) on available-for-sale investments, net of tax	Reserve for hedging funds	Currency translation reserve	Remeasurements on employee benefits	Legal reserves	Retained earnings	Total equity attributable to equity holders of the Parent	Non-controlling Interest	Total equity
At 1 January 2015		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(24,371)**	**(60,118)**	**76,619**	**19,555**	**196,866**	**2,808,327**	**6,508,353**	**7,390**	**6,515,743**
Dividend paid		-	-	-	-	-	-	-	-	-	-	-	(848)	(848)
Transfer to legal reserves		-	-	-	-	-	-	-	-	33,934	(33,934)	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	-	838,738	838,738	986	839,724
Other comprehensive income for the period		-	-	-	-	16,312	141,061	(76,619)	17,813	-	-	98,567	(58)	98,509
Total Comprehensive Income		-	-	-	-	16,312	141,061	(76,619)	17,813	-	838,738	937,305	928	938,233
At 31 December 2015		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(8,059)**	**80,943**	**-**	**37,368**	**230,800**	**3,613,131**	**7,445,658**	**7,470**	**7,453,128**
At 1 January 2016		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(8,059)**	**80,943**	**-**	**37,368**	**230,800**	**3,613,131**	**7,445,658**	**7,470**	**7,453,128**
Dividend paid		-	-	-	-	-	-	-	-	-	-	-	(815)	(815)
Transfer to legal reserves		-	-	-	-	-	-	-	-	46,592	(46,592)	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	-	812,573	812,573	1,191	813,764
Other comprehensive income for the period		-	-	-	-	(49,425)	(50,434)	-	(3,695)	-	-	(103,554)	(23)	(103,577)
Total Comprehensive Income		-	-	-	-	(49,425)	(50,434)	-	(3,695)	-	812,573	709,019	1,168	710,187
At 31 December 2016		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(57,484)**	**30,509**	**-**	**33,673**	**277,392**	**4,379,112**	**8,154,677**	**7,823**	**8,162,500**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Cash flows from operating activities			
Interest received		7,054,680	6,892,633
Interest paid		(3,973,272)	(3,778,305)
Fees and commissions received		1,995,465	2,135,964
Trading income		(946,399)	(910,309)
Recoveries of impairment of loan, lease and factoring receivables		644,667	495,010
Fees and commissions paid		(464,101)	(489,116)
Cash payments to employees and other parties		(1,011,798)	(935,546)
Other operating activities		(1,371,210)	(1,066,395)
Income taxes paid	17	(345,278)	(198,242)
Cash flows from operating activities before changes in operating assets and liabilities		**1,582,754**	**2,145,694**
Changes in operating assets and liabilities			
Net decrease / (increase) in trading securities		2,724	(114,763)
Net decrease / (increase) in reserve deposits at central banks		777,347	(845,635)
Net (increase) / decrease in loans and receivables due from banks		(440,382)	1,160,561
Net (increase) in loans and receivables		(5,047,456)	(7,734,792)
Net (increase) / decrease in factoring receivables		(486,364)	124,135
Net decrease in other assets		177,117	3,896
Net increase / (decrease) in deposits from other banks		66,411	(1,214,292)
Net increase in customers' deposits		5,406,251	5,143,285
Net (decrease) / increase in other money market deposits		(926,080)	627,367
Net increase in factoring payables		2,332	7,524
Net (decrease) in other liabilities		(868,712)	(862,063)
Net cash used in operating activities		**(1,336,812)**	**(3,704,777)**
Cash flows from investing activities			
Purchases of available-for-sale securities	6	(2,240,112)	(2,964,870)
Proceeds from sale and redemption of available-for-sale securities	6	2,313,981	3,303,411
Purchases of property and equipment	9	(55,981)	(63,308)
Proceeds from the sale of premises and equipment		319	1,352
Purchases of intangible assets	10	(74,532)	(29,431)
Proceeds from disposal of subsidiaries, net of cash disposed	3	-	(385,478)
Net cash used in investing activities		**(56,325)**	**(138,324)**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		13,617,983	11,481,320
Repayment of funds borrowed and debt securities		(10,868,991)	(9,654,319)
Dividends paid to equity holders of the parent		(815)	(848)
Net cash provided by financing activities		**2,748,177**	**1,826,153**
Effect of net foreign exchange difference on cash and cash equivalents		601,388	313,450
Net increase in cash and cash equivalents		3,539,182	442,196
Cash and cash equivalents at the beginning of the period	5	3,881,418	3,439,222
Cash and cash equivalents at the end of the period	**5**	**7,420,600**	**3,881,418**

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

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası Anonim Şirketi ("TEB" or "The Bank"), which had been a local bank incorporated in Kocaeli in 1927 under the name of Kocaeli Halk Bankası T.A.Ş., was acquired by the Çolakoğlu Group in 1982. Its title was changed as Türk Ekonomi Bankası A.Ş. and its headquarters moved to İstanbul. On 10 February 2005, BNP Paribas took over 50% of shares of TEB Holding A.Ş. Consequently, BNP Paribas became indirect shareholder of TEB with 42.125% ownership. In 2009 BNP Paribas Group successively acquired 75% of Fortis Bank Belgium and 66% of Fortis Bank Luxembourg and became the shareholder holding the majority of the shares of Fortis Bank Turkey. The indirect majority shareholders of TEB which are BNP Paribas and Çolakoğlu Group has agreed on the merge of TEB and Fortis Bank under the trademark of TEB and following the authorizations obtained from the regulatory authorities on 14 February 2011 the legal merge of two banks has been performed.

As shareholders holding 96.005% of shares of the Bank, BNP Paribas Fortis Yatırımlar Holding A.Ş., BNP Paribas Yatırımlar Holding A.Ş., BNP Paribas, and TEB Holding A.Ş. acting jointly as the "Controlling Shareholders" according to the Communiqué of the Capital Markets Board No II-27.2 on Squeeze-out and Sell-Out Rights ("Communiqué"). Pursuant to Provisional Article 1 of the Communiqué, sell-out and squeeze-out rights became exercisable upon the acquisition of the additional share by BNP Paribas Fortis Yatırımlar Holding A.Ş., one of the controlling shareholders, on 14 November 2014. After the completion of the related procedures and the positive opinion of the BRSA on 17 June 2015, the shares subject to sell-out were cancelled on 23 June 2015, and on 24 June 2015 share prices were paid to share owners through the Central Registry Agency (MKK). On 24 June 2015 new shares were issued in place of the cancelled shares via private placement on behalf of our majority shareholder BNP Paribas Fortis Yatırımlar Holding A.Ş.. Following these transactions, as per the Borsa İstanbul Board of Directors decision dated 19 March 2015, TEB shares were delisted on 17 April 2015 and will be permanently removed from trading. On the same date, TEB was removed from the scope of the CMB Law by the CMB. The shareholders' structure and their respective ownerships are summarized below as of 31 December 2016 together with the comparative information as of 31 December 2015:

	31 December 2016		31 December 2015	
	Paid in capital	**%**	**Paid in capital**	**%**
TEB Holding A.Ş.	1,212,415	55.00	1,212,415	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	518,342	23.51
BNP Paribas Fortis Yatırımlar Holding A.Ş.	467,879	21.23	467,879	21.23
BNPP Paribas	5,253	0.24	5,253	0.24
Kocaeli Ticaret Odası	501	0.02	501	0.02
Total	**2,204,390**	**100.00**	**2,204,390**	**100.00**

As of 31 December 2016, the Bank's paid-in-capital consists of 2,204,390,000 shares of TL1.00 (full TL) nominal each.

The registered office address of TEB is TEB Kampüs C ve D Blok, Saray Mahallesi, Sokullu Caddesi, No: 7A-7B Ümraniye-İstanbul/Turkey.

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

The consolidated financial statements of the Group were authorized for issuance by the management on 24 February 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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

1. CORPORATE INFORMATION (continued)

Nature of Activities of the Group

The operations of the Group consist of banking, factoring, securities brokerage and portfolio management, which are conducted mainly for local customers.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2016 and 31 December 2015 are as follows:

	Place of Incorporation	**Effective Shareholding And Voting Rights %**	
		31 December 2016	**31 December 2015**
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.00	100.00
TEB Faktoring A.Ş.	Turkey	100.00	100.00
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	54.74	54.74

The principal activities of the consolidated subsidiaries are as follows:

TEB Yatırım – Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Faktoring – Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Portföy – Managing individual customer portfolios and mutual funds which consist of capital market instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements have been prepared under the historical cost convention, except for those assets and liabilities measured at fair value.

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

2.2 Accounting Policies, Judgments and Estimates

Judgments and Estimates

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards (IAS) requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the statement of income and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results of operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the consolidated financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the consolidated financial statements are discussed in the relevant sections below.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiaries Which Operate in Turkey:

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira ("TL"). Until 31 December 2004, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

Foreign Currency Translation

The consolidated financial statements are presented in TL, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
31 December 2014	2.81	2.32
31 December 2015	3.16	2.90
31 December 2016	3.70	3.51

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (TL) at the exchange rate ruling at the balance sheet date. The income statements of foreign subsidiaries are translated at average exchange rates for the year end. For consolidation purposes, exchange differences arising from the translation of the net investment in foreign entities are included in other comprehensive income as currency translation differences until the disposal of the net investment.

On disposal of a foreign entity, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation is recognized in the income statement as a component of the gain or loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Basis of Consolidation and Goodwill

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December of each year.

Subsidiaries are entities over which the Group controls because the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries in which the Group obtained power directly from the voting rights, or has power to govern the financial and operating policies under a statute or agreement are subject to consolidation. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are fully consolidated from the date of acquisition, referring to the date on which control is transferred to the Group and are deconsolidated 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.

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

The Economy Bank N.V. was sold on 11 December 2015 and consolidated in the income statement until 31 December 2015. Financial information relating to the discontinued operation is presented under "Profit/(loss) after tax for the year from discontinued operations" in financial statements.

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 acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. 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 acquiree and the fair value of the acquirer's previously held interest in the acquiree (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. There is no negative bargain purchase gain recognized by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Premises and Equipment

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

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

Buildings and land improvements	50 years
Vehicles	5 years
Furniture, fixtures and office equipment and others	5 years
Land	Not depreciated
Leasehold improvements	Lease period (max 5 years)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end.

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.

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 derecognition 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.

Intangible Assets

Intangible assets acquired 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.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

Gains or losses arising from the derecognition 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; 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.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. 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.

Financial assets at fair value through profit or loss

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. The financial assets held for trading are recognized as at fair value and gains or losses upon valuation are recognized in profit/loss. Interest on trading securities calculated using the effective interest method is presented in profit or loss as interest income.

Held-to-maturity investments

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 such as 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. If the entire class of held-to-maturity investments is tainted, the carrying value would decrease by TL 3,232 (31 December 2015: TL 4,679 increase) before tax effect, by adjusting to fair value due to change in the classification and hence, the valuation methodology, with a corresponding entry in the net unrealized gains on available-for-sale investments under equity. There has been no tainting in the held-to-maturity portfolio during the current period.

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 whilst holding held-to-maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

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.

Available-for-sale financial assets

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 preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of other comprehensive income until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used.

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 balance sheet and are measured in accordance with the accounting policy of the security portfolio which they belong to. Securities sold subject to repurchase agreements (‘repos’) are referred to as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date (‘reverse repos’) are not recognized in the balance sheet, 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 of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in the balance sheet 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.

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

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 derecognition 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.

Impairment of Financial Assets

a) 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. 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 obligor;
(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) becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a 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.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

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 carrying amount and the estimated recoverable amount of the asset, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets (continued)

The Group first assesses whether objective evidence for impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for 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.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and factoring receivables as of 31 December 2016 is TL57,068,949 (31 December 2015: TL52,737,399) with the impairment allowance of TL1,737,021 (31 December 2015: TL1,294,611).

b) 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 since 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 carrying amount and the present value of the recoverable amount of the asset. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest - Bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Employee Benefits

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30 day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct, and due to marriage, female employees terminating their employments within a year as of the date of marriage, or male employees terminating their employments due to their military service. The Bank is also required to make a payment for the period of notice calculated over each service year of the employee whose employment is terminated for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS No: 19 “International Accounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in the other comprehensive income.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Bank uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are reviewed annually. The carrying value of provision for employee termination benefits as of 31 December 2016 is TL129,181 (31 December 2015: TL102,153).

	31 December 2016	31 December 2015
Discount Rate (%)	10.00	10.30
Expected Inflation Rate (%)	5.00	5.00
Salary Increase Rate Above Inflation Rate (%)	1.00	1.00

Employees transferred to the Bank following the business combination defined in “General Information” of the Bank and Fortis Bank A.Ş. are the members of “Türk Dış Ticaret Bankası Mensupları Pension Fund Foundation” (the “Pension Fund”) which was established in May 1964 under the Provisional Article 20 of Social Insurance Law No: 506. Technical financial statements of the Pension Fund are reviewed by a licensed actuary in accordance with Article 38 of the Insurance Supervisory Law and the “Actuary Regulations” issued based on the same article. As of 31 December 2016, the Pension Fund has 1,866 employees and 1,037 pensioners (31 December 2015: 2,006 employees and 997 pensioners).

Provisional Article 23 (1) of Banking Law No: 5411 (the “Banking Law”) published in the Official Gazette repeated no: 25983 on 1 November 2005 requires the transfer of bank funds to the Social Security Institution (the “SSI”) within 3 years after the effective date of the Banking Law and the related paragraph also sets out the basis for the related transfer. However, Article 23 (1) of Banking Law No: 5411 was annulled based on the Constitutional Court’s ruling issued on 22 March 2007 and ruled for the stay of execution as of 31 March 2007. The related Court ruling and its basis were published in the Official Gazette No: 26731 on 15 December 2007.

Following the publication of the said decree of the Constitutional Court, the Turkish Grand National Assembly (the “TGNA”) initiated its studies on the development of new regulations in regards to the transfer of bank pension participations to the SSI and the related articles of the Social Security Law that are set out to determine the basis of fund transfers and new regulations became effective with its publication in the Official Gazette No: 26870 on 8 May 2008 and the completion of the transfer within 3 years starting from 1 January 2008. Upon the Council of Ministers’ resolution issued in the Official Gazette, the transfer period has been extended for 2 years as of 14 March 2011. According to amendment on the social security and general health insurance law published in the Official Gazette dated 8 March 2012 numbered 6283, mentioned 2-year transfer period has been increased to 4 years. Upon the Council of Ministers’ resolution dated 24 February 2014 issued in the Official Gazette No:28987 on 30 April 2014, mentioned transfer period has been extended for one more year while it has been extended for one year upon the Council of Ministers’ resolution dated 08 April 2013 issued in the Official Gazette No:28636 on 3 May 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Defined Benefit Plans (continued)

The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335.

The technical financial statements of the Pension Fund are prepared by an independent actuary company considering related regulation and the Fund is not required to provide any provisions for any technical or actual deficit in the financial statements based on the actuarial report prepared as of 31 December 2016. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

The Bank management anticipates that any potential liability that may be incurred during or after the transfer within the above-mentioned limits will be likely recoverable, they believe such liabilities will not bring any additional liability to the Bank.

Defined Contribution Plans

The Bank pays contributions to Social Security Funds and to “Security Fund” whose members joined to the Bank as a consequence of merger.

Provisions

Provisions are recognized when the Group has a present obligation 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.

Leases

(a) The Group as Lessee

Finance leases

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group’s general policy on borrowing costs.

Operating leases

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Factoring Receivables

Factoring receivables are recognized at original factored receivable amount less advances extended against factoring receivables, interest and factoring commissions charged, and are carried at amortized cost, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment.

Income and Expense Recognition

Interest income and expenses 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, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in 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. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. 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 ratably over the period service is provided.

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

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.

The Group is subject to income taxes in various jurisdictions. Where there are matters causing the final tax outcome to be different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As of 31 December 2016, the Group carries TL1,509 of income taxes payable (31 December 2015: TL109,955), TL148,211 of deferred tax asset (31 December 2015: TL154,768) and has no deferred tax liability (31 December 2015: nil).

Current tax

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

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Deferred tax (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

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

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

Derivative Financial Instruments and Hedge Accounting

Derivatives Held for Trading

The Group enters into transactions with derivative instruments including forwards, swaps, options and futures in the foreign exchange and capital markets. Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

All derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. As of 31 December 2016, the carrying amount of derivative financial assets held for trading is TL1,069,628 (31 December 2015: TL494,117) and the carrying amount of derivative financial liabilities held for trading is TL942,614 (31 December 2015: TL519,397).

Derivatives and Hedge Accounting

The Bank applies fair value and cash flow hedge accounting for the hedge of interest rate risk.

Cash flow hedges are particularly used to hedge interest rate risk on floating-rate liabilities, including rollovers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgments and Estimates (continued)

Derivatives and Hedge Accounting(continued)

The fair value changes of the hedged portfolios are included under "remeasurement adjustment on interest-rate risk hedged portfolios" in the balance sheet and "net gain/loss on financial instruments at fair value through profit or loss" in the income statement. Additionally, the difference between the fair value and the carrying value of the hedged portfolio at the inception of hedge accounting is amortized based on the respective maturities and included in "net gain/loss on financial instruments at fair value through profit or loss" in the income statement together with the fair value changes of the hedged portfolio and hedging instruments. The actual interest income and expense on the derivatives used for hedging purposes are recorded as interest income and expense.

At the inception of the hedge, the Bank prepares formal documentation of the hedging relationship identifying the hedged item, the hedging instrument, the hedging strategy, the type of risk covered and the methods used to assess the effectiveness of the hedging relationship. On inception and on a quarterly basis the effectiveness of the hedging relationship is assessed consistently with the original documentation. The details of the hedge accounting are explained in Note 18.

Fiduciary Assets

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

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Interest Income and Expenses

Interest income and expense are recognized in the income statement for all interest bearing instruments whose cash inflows and outflows are known or can be estimated on an accrual basis using the effective interest method. In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

Fees and Commission Income and Expenses

Banking services incomes which are not periodic services are recorded as income at the date they are collected. In order to classify the fees and commissions collected from customers as banking services income or as other non-interest income, they should be directly related with a credit operation.

All type of fees and commissions collected from customers regarding cash loans are recorded in the account of commissions on cash loans and are discounted by effective interest method and are extended over the period of the loan. Operation costs related with consumer loan utilisations are calculated and advance commission payments up to the calculated amount are recorded directly as income.

Regarding insurance operations conducted as insurance agency, the Parent Bank collects commissions from insurance companies which are recorded as income on accrual basis.

As for the commission incomes related with non-cash loans or periodic banking services, they are extended over the relative period according to the periodicity principle and recorded as income. Credit fee and commission expenses which are paid to other companies and institutions regarding financial liabilities and which create operational costs are discounted by effective interest method and are reflected to the expenses accounts of the relevant period according to the periodicity principle.

Dividend Income

The dividend income is reflected to the financial statements on a cash basis when the profit distribution is realized by the associates and subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 31 December 2016

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

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

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

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

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

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

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

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

viii) Amendment to IAS 1, ‘Presentation of financial statements’ on the disclosure initiative, effective from annual periods beginning on or after 1 January 2016. These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

b) *Standards, amendments and interpretations effective after 1 January 2017*

i) Amendments to IAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

ii) Amendments IAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

iii) Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

iv) Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard— IAS 39.

v) Amendment to IAS 40, 'Investment property' relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

vi) Annual improvements 2014–2016, effective from annual periods beginning on or after 1 January 2018. These amendments impact 3 standards:

- IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.

- IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

- IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

vii) IFRIC 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

b) *Standards, amendments and interpretations effective after 1 January 2017 (continued)*

viii) IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments", issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging). IFRS 9 is mandatory for annual periods beginning on or after 1 January 2018.

According to IFRS 9, classification and measurement of financial assets will depend on the business model and the contractual characteristics of the instruments. On initial recognition, financial assets will be measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss. Investments in equity instruments such as shares will be classified as instruments at fair value through profit or loss, or, as an option, as instruments at fair value through other comprehensive income. The only change introduced by IFRS 9 with respect to financial liabilities relates to recognition of changes in fair value attributable to changes in the credit risk of the liabilities designated as at fair value through profit or loss (fair value option), which will be recognised in other comprehensive income and not through profit or loss.

Application of these criteria may lead to different classification and measurement of some financial assets compared with IAS 39. Based on the analysis performed for the classification and measurement phase of the standard, the Group does not expect any significant impact on its financial statements.

IFRS 9 establishes a new credit risk impairment model based on expected losses. Under the impairment model in IAS 39, an impairment loss is recognised when there is an objective evidence of a decrease in value. Counterparties that are not individually impaired are risk-assessed on the basis of portfolios with similar characteristics and groups of counterparties which, as a result of events occurring since inception of the loans present objective indication of impairment, are subject to a portfolio-based impairment. The new impairment model under IFRS 9 requires accounting for 12-month expected credit losses (that result from the risk of default in the next 12 months) on the financial instruments issued or acquired, as of the date of initial recognition on the balance sheet. Expected credit losses at maturity (that result from the risk of default over the life of the financial instrument) must be recognised if the credit risk has increased significantly since initial recognition. This model will apply to loans and debt instruments measured at amortised cost or at fair value through other comprehensive income, to loan commitments and financial guarantees not recognised at fair value, as well as to lease receivables.

The IFRS 9 implementation project for the impairment phase is in process. At this stage, the project focuses mainly on defining the methodology for the new impairment model, planning the IT infrastructure and assessment of impact on the financial statements.

ix) IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, will supersede a number of standards and interpretations on revenue recognition (in particular IAS 18 Revenue and IAS 11 Construction Contracts). This standard does not apply to revenues from lease contracts, insurance contracts or financial instruments. It is based on a five-step model framework to determine the timing and amount of recognition of revenue from ordinary activities. IFRS 15 is mandatory for annual periods beginning on or after 1 January 2018. The Group is in the process of analysing the standard and its potential impacts.

Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and Revised International Financial Reporting Standards (continued)

b) *Standards, amendments and interpretations effective after 1 January 2017 (continued)*

x) IFRS 16 Leases

IFRS 16 'Leases' supersedes IAS 17 'Leases' and is effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied at the same date. The new standard requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets that can only be applied by lessees. Lessor accounting remains substantially unchanged. The Group is currently in the process of assessing the impact of this new standard on its financial statements.

The new standards, amendments and interpretations which will be effective after 1 January 2017 are not expected to have a material impact on the Group's consolidated financial statements except adoption of IFRS 9 as discussed in 2.3.b.viii.

2.4 Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

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

3. DISCONTINUED OPERATION

The Bank sold 100% of its shares in The Economy Bank N.V. to BNP Paribas Fortis S.A./N.V. for a consideration of EUR 107,769 thousand. The consideration was collected after completion of procedures on 11 December 2015. The Economy Bank N.V. financials were included in the consolidated financials until 31 December 2015. The gain on sale amounting to TL125,458 including TL 119,775 of recycling of currency translation reserve, which consists on addition of TL43,156 in previous year, and is presented under "Profit/(loss) after tax for the year from discontinued operations" in financial statements.

The result of The Economy Bank N.V. for the year ended 31 December 2015 is presented below:

	1 January - 31 December 2015
Net interest income	40,050
Net fee and commission income	16,803
Net gain/loss on financial instruments at fair value through profit or loss	(23,349)
Net income from other activities	(125)
Net banking income	33,379
Operating expenses	(38,576)
Gross operating income	(5,197)
(Provisions for) / recoveries from impairment of loan, lease and factoring receivables	38
Profit from operating activities before income tax	(5,159)
Income tax	(956)
Net profit for the year	(6,115)
Effect of intercompany transactions	(3,330)
Gain on sale of discontinued operations	125,458
Tax charge of gain on sale of discontinued operations	(14,276)
Net profit for the year from the discontinued operation	101,737

Net cash flows on disposal of The Economy Bank N.V.:

Consideration received in cash	346,768
Less: Cash and cash equivalents balances	(732,246)
Net cash outflow on disposal	**(385,478)**

Cash and cash equivalents at the beginning of the year	820,144
Cash flows from operating activities before changes in operating assets and liabilities	(18,975)
Net cash used in operating activities	(245,087)
Net cash provided by investing activities	175,035
Net cash provided by financing activities	1,129
Cash and cash equivalents at the end of the year	**732,246**

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

4. SEGMENT INFORMATION

Business segments

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

Year ended 31 December 2016

	Retail Banking	Corporate Banking	SME Banking	Treasury/Head Office	Eliminations	Group
Net banking income	814,120	481,350	1,938,572	841,947	(3,682)	4,072,307
Operating expenses	(615,805)	(104,006)	(631,718)	(782,915)	3,682	(2,130,762)
Provisions for impairment of loan, factoring receivables, net of recoveries	(148,937)	(127,775)	(634,996)	-	-	(911,708)
Operating income	**49,378**	**249,569**	**671,858**	**59,032**	**-**	**1,029,837**
Non-operating items	-	-	-	123	-	123
Pre-tax income from operating activities	**49,378**	**249,569**	**671,858**	**59,155**	**-**	**1,029,960**
Income from discontinued operations	-	-	-	-	-	-
Pre-tax income from operating activities of discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**
Assets and Liabilities						
Segment assets	12,323,328	15,272,207	25,280,367	26,073,417	(219,039)	78,730,280
Unallocated assets	-	-	-	2,201,145	(425)	2,200,720
Total assets	**12,323,328**	**15,272,207**	**25,280,367**	**28,274,562**	**(219,464)**	**80,931,000**
Segment liabilities	30,514,105	12,202,836	8,644,258	18,775,693	(100,786)	70,036,106
Unallocated liabilities	-	-	-	2,733,344	(950)	2,732,394
Total liabilities	**30,514,105**	**12,202,836**	**8,644,258**	**21,509,037**	**(101,736)**	**72,768,500**
Other segment information						
Capital expenditures						
Tangible fixed assets	-	-	-	55,981	-	55,981
Intangible fixed assets	-	-	-	74,532	-	74,532
Depreciation	-	-	-	95,820	-	95,820
Amortization	-	-	-	42,183	-	42,183

Year ended 31 December 2015

	Retail Banking	Corporate Banking	SME Banking	Treasury/Head Office	Eliminations	Group
Net banking income	819,722	462,697	1,723,381	498,356	(39)	3,504,117
Operating expenses	(607,414)	(108,535)	(614,467)	(639,955)	3,369	(1,967,002)
Provisions for impairment of loan, factoring receivables, net of recoveries	(149,789)	(62,852)	(394,074)	506	-	(606,209)
Operating income	**62,519**	**291,310**	**714,840**	**(141,093)**	**3,330**	**930,906**
Non-operating items	-	-	-	863	-	863
Pre-tax income from operating activities	**62,519**	**291,310**	**714,840**	**(140,230)**	**3,330**	**931,769**
Income from discontinued operations	(8,515)	45,802	-	83,011	(3,330)	116,968
Pre-tax income from operating activities of discontinued operations	**(8,515)**	**45,802**	**-**	**83,011**	**(3,330)**	**116,968**
Assets and Liabilities						
Segment assets	12,246,664	13,198,363	24,493,358	20,688,626	(136,633)	70,490,378
Unallocated assets	-	-	-	2,280,446	(75)	2,280,371
Total assets	**12,246,664**	**13,198,363**	**24,493,358**	**22,969,072**	**(136,708)**	**72,770,749**
Segment liabilities	26,925,671	10,115,656	8,354,559	17,203,960	(18,326)	62,581,520
Unallocated liabilities	-	-	-	2,736,743	(642)	2,736,101
Total liabilities	**26,925,671**	**10,115,656**	**8,354,559**	**19,940,703**	**(18,968)**	**65,317,621**
Other segment information						
Capital expenditures						
Tangible fixed assets	-	-	-	62,867	-	62,867
Intangible fixed assets	-	-	-	29,431	-	29,431
Depreciation	-	-	-	94,286	-	94,286
Amortization	-	-	-	33,514	-	33,514

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

4. SEGMENT INFORMATION (Continued)

Geographical information

The Group's geographical information are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey.

5. CASH, BALANCES WITH CENTRAL BANKS, LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

	31 December 2016	31 December 2015
Cash on hand	897,145	831,464
Balances with central banks	4,373,578	1,854,585
Reserve deposits with central banks (restricted)	6,554,872	7,357,010
Cash and balances with central banks	**11,825,595**	**10,043,059**
Loans and receivables due from banks	**1,898,629**	**2,479,512**
Funds lent under reverse repurchase agreements	2,001,067	206
Other money market placements	**2,001,067**	**206**
Less: Loans due from banks	(464,479)	(1,269,191)
Less: Time deposits with original maturities of more than three months	-	-
Less: Reserve deposits (restricted)	(7,835,883)	(7,357,010)
Less: Interest accruals	(4,329)	(15,158)
Cash and cash equivalents in the statements of cash flows	**7,420,600**	**3,881,418**

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit a portion of certain liability accounts as specified in the related decree.

As of 31 December 2016, the Turkish lira required reserve ratios are determined to be within the range of 4%-10.50% depending on the maturity structure of deposits denominated in Turkish lira (31 December 2015: 5%-11.50%), and the required reserve ratios for foreign currency deposits and other liabilities within the range of 4.50%-24.50% (31 December 2015: 5%-25%).

The effective interest rates on deposits and placements are as follows:

	31 December 2016		31 December 2015	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with central banks	-	-	-	-
Reserve deposits	3.31%	-	1.81%	-
Loans and receivables due from banks	7.00%-13.00%	0.03%-0.78%	6.20%-18.50%	0.03%-0.74%
Funds lent under reverse repurchase agreements	7.90%-8.40%	-	8.50%-10.50%	-
Interbank placements	-	-	-	-

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES

Financial assets at fair value through profit and loss:

	31 December 2016			31 December 2015		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Financial assets at fair value through profit and loss						
Debt instruments	**203,194**			**205,822**		
Turkish government bonds and treasury bills	189,384	8.16%-11.16%	-	194,823	8.59%-11.61%	-
Eurobonds issued by the Turkish government	13,810	-	(0.01)%-6.64%	10,999	-	0.08%-5.85%
Derivatives held for trading	**1,069,628**	-	-	**494,117**	-	-
Total financial assets at fair value through profit and loss	**1,272,822**			**699,939**		

Investment Securities:

	31 December 2016			31 December 2015		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Available- for-sale securities at fair value						
Debt instruments						
Turkish government bonds	4,046,869	7.83%-11.16%	-	4,019,702	7.80%-11.61%	-
Eurobonds issued by the Turkish government	16,315	-	2.59%-5.80%	14,228	-	2.44-4.99%
Equity instruments – unlisted	**31,350**	-	-	**84,269**	-	-
Total available- for-sale securities at fair value	**4,094,534**			**4,118,199**		
Available-for-sale securities at cost						
Equity instruments – unlisted	11,856	-	-	12,425	-	-
Total available- for- sale securities	**4,106,390**			**4,130,624**		
Held-to-maturity securities at amortized cost						
Debt instruments						
Turkish government bonds	361,508	10.16%-11.16%	-	339,417	10.59%-11.59%	-
Total held-to-maturity securities	**361,508**			**339,417**		
Total investment securities	**4,467,898**			**4,470,041**		

Unlisted equity securities classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. If investments in equity instruments do not have a quoted price and a reliable estimate of their fair values could not be made, they are reflected at cost less reserve for impairment, if any.

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

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (continued)

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements, which are included in the related portfolio are:

	31 December 2016	31 December 2015
Available-for-sale securities	1,456,769	2,395,729
Carrying value of securities given as collateral under repos	**1,456,769**	**2,395,729**
Related liability	**1,457,750**	**2,384,787**

As of 31 December 2016, government securities with carrying values of TL328,425 (31 December 2015: TL715,974) are pledged to the Central Bank and the Istanbul Takas ve Saklama Bankası Anonim Şirketi (Istanbul Clearing, Settlement and Custody Bank Incorporation) and Vadeli İşlem Opsiyon Borsası (Borsa Istanbul Futures and Options Market) for regulatory requirements and as a guarantee for stock exchange, money market operations and derivatives.

There is not any securities given as collateral under repurchase agreements where the counterparty has the right to resell or re-pledge them.

TL2,520,967 (31 December 2015: TL1,947,986) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Gains and losses from investment securities arise from derecognition of available-for-sale securities.

The movement in investment securities (including those classified as loaned securities) is summarized as follows:

	31 December 2016			31 December 2015		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
At 1 January	4,130,624	339,417	4,470,041	4,488,271	317,360	4,805,631
Exchange differences	7,298	-	7,298	27,130	-	27,130
Additions	2,247,988	-	2,247,988	2,964,870	-	2,964,870
Disposals (sale and redemption)	(2,327,826)	-	(2,327,826)	(3,303,411)	-	(3,303,411)
Changes in amortized cost and fair value	48,306	22,091	70,397	(32,113)	22,057	(10,056)
Sale of subsidiary	-	-	-	(14,123)	-	(14,123)
Total	**4,106,390**	**361,508**	**4,467,898**	**4,130,624**	**339,417**	**4,470,041**

The Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the year.

Government debt securities had been accounted as financial assets available for sale, have been classified as held to maturity investments with their market value on year 2013, and accumulated valuation difference for reclassified available for sale securities are followed under shareholders' equity. This accumulated valuation difference is subjected to amortization according to the days to maturity and being transferred to profit/loss accounts in the related periods. As of 31 December 2016, total accumulated valuation difference of these securities followed under shareholders' equity is negative TL20,101 (31 December 2015: negative TL25,574).

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

7. LOANS AND RECEIVABLES

	31 December 2016			31 December 2015		
	Amount	**Effective interest rate**		**Amount**	**Effective interest rate**	
		Turkish Lira	**Foreign Currency**		**Turkish Lira**	**Foreign Currency**
Commercial	38,694,211	7.59%-36.00%	1.25%-6.25%	35,530,279	7.59%-32.00%	1.35%-6.25%
Consumer	13,486,848	8.76%-18.60%	0.95%-5.50%	13,120,086	8.40%-16.20%	0.50%-6.00%
Credit cards	3,029,418	10.23%-10.88%	-	2,832,875	9.94%-11.75%	-
Other	108,535	10.38%-24.64%	-	86,269	13.00%-29.65%	-
Total performing loans	**55,319,012**			**51,569,509**		
Loans in arrears	1,771,775			1,232,527		
Less: Allowance for individually impaired loans	(1,217,385)			(821,114)		
Less: Allowance for collectively impaired loans	(488,477)			(455,775)		
Total	**55,384,925**			**51,525,147**		

Loans and receivables amounting to TL8,121,024 (31 December 2015: TL9,196,682) have floating interest rates and the rest have fixed interest rates.

The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

31 December 2016	**Commercial**	**Consumer**	**Credit Cards**	**Other**	**Total**
Neither past due nor impaired	36,444,421	12,811,765	2,857,776	108,535	52,222,497
Past due but not impaired	2,249,790	675,083	171,642	-	3,096,515
Individually impaired	639,285	971,008	161,482	-	1,771,775
Total gross	**39,333,496**	**14,457,856**	**3,190,900**	**108,535**	**57,090,787**
Less: allowance for individually impaired loans	(480,791)	(625,078)	(111,516)	-	(1,217,385)
Less: allowance for collectively impaired loans	(385,768)	(73,455)	(29,254)	-	(488,477)
Total allowance for impairment	**(866,559)**	**(698,533)**	**(140,770)**	**-**	**(1,705,862)**
Total net	**38,466,937**	**13,759,323**	**3,050,130**	**108,535**	**55,384,925**

31 December 2015	**Commercial**	**Consumer**	**Credit Cards**	**Other**	**Total**
Neither past due nor impaired	33,979,422	12,514,336	2,685,186	86,269	49,265,213
Past due but not impaired	1,550,857	605,750	147,689	-	2,304,296
Individually impaired	364,590	721,976	145,961	-	1,232,527
Total gross	**35,894,869**	**13,842,062**	**2,978,836**	**86,269**	**52,802,036**
Less: allowance for individually impaired loans	(270,455)	(448,996)	(101,663)	-	(821,114)
Less: allowance for collectively impaired loans	(353,869)	(71,986)	(29,920)	-	(455,775)
Total allowance for impairment	**(624,324)**	**(520,982)**	**(131,583)**	**-**	**(1,276,889)**
Total net	**35,270,545**	**13,321,080**	**2,847,253**	**86,269**	**51,525,147**

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

7. LOANS AND RECEIVABLES (continued)

A reconciliation of the allowance for individual and collective impairment losses on loans and receivables by classes is as follows;

	Commercial	Consumer	Credit Cards	Total
At 1 January 2016	**624,324**	**520,982**	**131,583**	**1,276,889**
Charge for the year	801,889	355,082	121,213	1,278,184
Recoveries	(272,024)	(76,174)	(30,514)	(378,712)
Sale of non-performing loans (*)	(287,630)	(101,357)	(81,512)	(470,499)
At 31 December 2016	**866,559**	**698,533**	**140,770**	**1,705,862**

	Commercial	Consumer	Credit Cards	Total
At 1 January 2015	**801,050**	**252,759**	**176,161**	**1,229,970**
Charge for the year	247,022	456,630	95,594	799,246
Recoveries	(111,968)	(64,987)	(33,216)	(210,171)
Sale of non-performing loans (*)	(223,543)	(123,420)	(106,956)	(453,919)
Exchange difference	(17,308)	-	-	(17,308)
Sale of subsidiary	(70,929)	-	-	(70,929)
At 31 December 2015	**624,324**	**520,982**	**131,583**	**1,276,889**

(*) During 31 December 2016 and 31 December 2015 certain non-performing loans were sold to various asset management companies and proceeds were fully collected. These loans were written-off from the records upon completion of necessary procedures and collection of the proceeds.

		31 December 2016		
Loans sold by	**Non-performing loan amount**	**Provision amount**	**Proceed from sale**	**Net profit**
TEB A.Ş.	518,248	494,373	47,749	23,874

		31 December 2015		
Loans sold by	**Non-performing loan amount**	**Provision amount**	**Proceed from sale**	**Net profit**
TEB A.Ş.	521,390	504,257	67,471	50,338

Movements in the reserve for impairment on loans and receivables:

	31 December 2016	31 December 2015
Reserve at beginning of year	1,276,889	1,229,970
Provision for impairment	1,278,184	799,246
Recoveries	(378,712)	(210,171)
Provision net of recoveries	899,472	589,075
Sale of non-performing loans	(470,499)	(453,919)
Exchange differences	-	(17,308)
Sale of subsidiary	-	(70,929)
Reserve at the end of the year	**1,705,862**	**1,276,889**

The fair value of collaterals, capped with the respective outstanding loan balance, that the Group holds relating to loans individually impaired at 31 December 2016 is TL569,340 (31 December 2015: TL318,767).

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

31 December 2016	Commercial	Consumer	Credit cards	Total
Mortgage	132,424	279,383	16,770	428,577
Vehicle	23,167	84,551	4,682	112,400
Cash	16	65	414	495
Other	8,536	18,649	683	27,868
Total	**164,143**	**382,648**	**22,549**	**569,340**

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

7. LOANS AND RECEIVABLES (continued)

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired: (continued)

31 December 2015	Commercial	Consumer	Credit cards	Total
Mortgage	83,854	140,817	686	225,357
Vehicle	12,870	65,006	898	78,774
Cash	134	137	41	312
Other	6,069	8,254	1	14,324
Total	**102,927**	**214,214**	**1,626**	**318,767**

Collateral and credit enhancements obtained by taking possession:

31 December 2016	Commercial	Consumer	Total
Residential, commercial or industrial property	87,924	4,769	92,693
Other	531	-	531
Total	**88,455**	**4,769**	**93,224**

31 December 2015	Commercial	Consumer	Total
Residential, commercial or industrial property	69,482	5,247	74,729
Other	39	-	39
Total	**69,521**	**5,247**	**74,768**

The Group employs independent appraisers in determining the current fair values of its real estates. Provision for impairment loss amounting to TL1,590 is booked for real estates held for resale as per the appraisals performed as of 31 December 2016 (31 December 2015: TL1,480).

Aging analysis of past due but not impaired loans per class of financial instruments:

31 December 2016	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	1,253,420	504,294	492,076	2,249,790
Consumer	204,320	317,271	153,492	675,083
Credit cards	99,278	49,843	22,521	171,642
Total	**1,557,018**	**871,408**	**668,089**	**3,096,515**

31 December 2015	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	938,291	374,515	238,051	1,550,857
Consumer	206,593	272,130	127,027	605,750
Credit cards	86,142	42,471	19,076	147,689
Total	**1,231,026**	**689,116**	**384,154**	**2,304,296**

Of the total aggregate amount of gross past due but not yet impaired loans and receivables, the fair value of collaterals, capped with the respective outstanding total past due and not past due loan balances of the customer, that the Group held as at 31 December 2016 was TL2,205,410 (31 December 2015: TL1,414,571).

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

31 December 2016	Commercial	Consumer	Credit cards	Total
Mortgage	386,542	1,568,320	32,074	1,986,936
Vehicle	34,633	130,884	-	165,517
Cash	4,229	17,118	-	21,347
Other	7,075	23,519	1,016	31,610
Total	**432,479**	**1,739,841**	**33,090**	**2,205,410**

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

7. LOANS AND RECEIVABLES (continued)

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired: (continued)

31 December 2015	Commercial	Consumer	Credit cards	Total
Mortgage	893,866	311,169	23,923	1,228,958
Vehicle	102,628	27,905	8,098	138,631
Cash	18,697	5,960	1,978	26,635
Other	19,926	-	421	20,347
Total	**1,035,117**	**345,034**	**34,420**	**1,414,571**

8. FACTORING RECEIVABLES

	31 December 2016			31 December 2015		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Neither past due nor impaired	1,658,617	6.09%-19.68%	0.04%-9.88%	1,173,420	4.99%-28.99%	0.31%-6.82%
Past due but not impaired	15,518	-	-	23,866	-	-
Individually impaired	41,048	-	-	32,688	-	-
Total gross	**1,715,183**			**1,229,974**		
Less: allowance for individually impaired loans	(30,153)			(16,713)		
Less: allowance for collectively impaired loans	(1,006)			(1,009)		
Total allowance for impairment	**(31,159)**			**(17,722)**		
Total net	**1,684,024**			**1,212,252**		

The details of the factoring receivables based on types of factoring transactions are as follows:

	31 December2016	31 December 2015
Recourse factoring receivables	779,039	785,207
Non-recourse factoring receivables	895,096	412,079
Total	**1,674,135**	**1,197,286**

As of 31 December 2016, all of the factoring receivables have fixed interest rates (31 December 2015: All of factoring receivables have fixed interest rates).

Movements in the reserve for impairment:

	31 December 2016	31 December 2015
Reserve at beginning of year	17,722	21,102
Provision for impairment	15,530	13,161
Recoveries	(2,093)	(1,530)
Provision net of recoveries	13,437	11,631
Sale of non-performing loans (*)	-	(15,011)
Reserve at end of the year	**31,159**	**17,722**

(*) Impaired receivables portfolio of TEB Faktoring amounting to TL15,111 and for which TL15,011 provision had been allocated is sold to TURKASSET Varlık A.Ş. for TL100 on 22 October 2015. After completion of the necessary procedures and collection of the sale price, such impaired receivables have been written off from the accounts.

TEB Faktoring holds TL615 mortgage as collateral relating to factoring receivables individually determined to be impaired at 31 December 2016 (31 December 2015: nil).

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

9. PREMISES AND EQUIPMENT

	Land and Buildings	Motor Vehicles	Furniture, Office, Equipment, Leasehold Improvements	Total
At 1 January 2015				
Cost	116,556	1,216	902,075	1,019,847
Accumulated depreciation	(40,608)	(816)	(652,304)	(693,728)
Net book amount	**75,948**	**400**	**249,771**	**326,119**
Year ended 31 December 2015				
Opening net book amount	75,948	400	249,771	326,119
Exchange adjustment	1,246	-	13	1,259
Additions	-	114	62,753	62,867
Disposals		(226)	(354)	(580)
Depreciation charge for the year, net	(3,094)	(115)	(91,077)	(94,286)
Sale of subsidiary	(9,838)	-	(33)	(9,871)
Closing net book amount	**64,262**	**173**	**221,073**	**285,508**
At 31 December 2015				
Cost	105,131	530	881,115	986,776
Accumulated depreciation	(40,869)	(357)	(660,042)	(701,268)
Net book amount	**64,262**	**173**	**221,073**	**285,508**
Year ended 31 December 2016				
Opening net book amount	64,262	173	221,073	285,508
Additions	-	-	55,981	55,981
Disposals	-	-	(634)	(634)
Depreciation charge for the year, net	(2,951)	(44)	(92,825)	(95,820)
Closing net book amount	**61,311**	**129**	**183,595**	**245,035**
At 31 December 2016				
Cost	105,132	491	741,973	847,596
Accumulated depreciation	(43,821)	(362)	(558,378)	(602,561)
Net carrying amount	**61,311**	**129**	**183,595**	**245,035**

As of 31 December 2016 the cost of fully depreciated items equals TL332,790 (31 December 2015: TL436,739).

10. INTANGIBLE ASSETS

	31 December 2016	31 December 2015
At 1 January		
Cost	229,829	205,180
Accumulated amortization	(177,479)	(148,597)
Net book amount	**52,350**	**56,583**
Year ended 31 December 2016		
Opening net book amount	52,350	56,583
Exchange adjustment	-	76
Additions	74,532	29,431
Disposals	-	-
Amortization charge for the year, net	(42,183)	(33,514)
Sale of subsidiary	-	(226)
Closing net book amount	**84,699**	**52,350**

The cost of fully amortized items amounted to TL105,933 as of 31 December 2016 (31 December 2015: TL124,482).

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

11. GOODWILL

As of 31 December 2016 the Group has TL420,645 (31 December 2015: TL420,645) goodwill.

The Group tests goodwill impairment on an annual basis. Recoverable amount of the cash generating unit is calculated with Dividend Discount Model by calculating the present value of the distributable dividends and terminal value. The calculations use business plans approved by Bank Management covering a three year period. Beyond the four-year period the estimated growth rates in 2017-2020 are extrapolated. And as discount rate, the cost of equity for 2016 in Turkish Banking sector amounting to 16.25% and as terminal growth rate 6% is used. Since recoverable amount is higher than the adjusted net asset value, it is concluded that there is no impairment on the goodwill (31 December 2015: nil).

The Group has assessed reasonably possible changes for key assumptions and has not identified any instances that could cause impairment.

12. OTHER ASSETS

	31 December 2016	31 December 2015
Receivables from banks for credit card transactions	353,043	320,139
Cheque clearing accounts	254,229	377,353
Collaterals for derivatives	197,194	261,049
Prepaid expenses	138,526	145,239
Other transitory accounts	101,691	55,264
Assets held for resale, net of impairment (Note 7)	93,224	74,768
Prepaid tax	52,978	-
Others	111,245	133,288
Total	**1,302,130**	**1,367,100**

13. DEPOSITS

Deposits from other banks

	31 December 2016			31 December 2015		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Demand	4,710	-	-	1,078	-	-
Time	176,275	2.00%-4.75%	-	113,479	2.90%-8.50%	0.10%
Total	**180,985**			**114,557**		

Customers' deposits

	31 December 2016			31 December 2015		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign currency		Turkish Lira	Foreign currency
Saving						
Demand	2,533,549	-	-	2,196,291	-	-
Time	27,319,252	3.00%-12.00%	1.00%-3.65%	22,866,405	3.00%-14.45%	1.00%-2.55%
	29,852,801			**25,062,696**		
Commercial and other						
Demand	5,085,946	-	-	4,783,033	-	-
Time	14,691,454	3.00%-11.90%	0.50%-3.70%	14,417,346	3.00%-14.25%	0.50%-3.00%
	19,777,400			**19,200,379**		
Total	**49,630,201**			**44,263,075**		

Included in customer accounts were deposits of TL1,574,188 (31 December 2015: TL1,925,628) held as collateral for cash and non-cash loans given.

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

13. DEPOSITS (continued)

Other money market deposits

	31 December 2016			31 December 2015		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Obligations under repurchase agreements:						
-Due to banks	1,457,750	7.58%-8.33%	-	2,384,787	7.50%-10.29%	-
	1,457,750			**2,384,787**		

As of 31 December 2016 and 31 December 2015 all deposits and money market deposits have fixed interest rate.

14. DEBT SECURITIES

	Currency	Maturity	Interest Rate (%)	31 December 2016
Bank Bonds	TL	January 2017 – May 2017	9.92 - 10.41	739,302

	Currency	Maturity	Interest Rate (%)	31 December 2015
Bank Bonds	TL	January 2016 - February 2016	10.67 - 10.70	184,110
Bank Bonds	USD	January 2016	1.47 - 1.50	86,553

15. FUNDS BORROWED

	31 December 2016		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	11,304,816	6.34%-9.80%	0.23%-3.02%
Floating interest	2,828,494	6.34%-6.84%	0.50%-3.30%
Floating interest subordinated loan	358,277	-	4.59%
Medium/long-term			
Fixed interest	152,585	-	1.70%-4.52%
Floating interest	201,079	-	0.75%-3.00%
Floating interest subordinated loan	1,937,823	-	1.88%-7.01%
Total	**16,783,074**		

	31 December 2015		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	12,058,486	6.59%-15.00%	0.70%-2.42%
Floating interest	424,956	6.34%-6.84%	0.33%-1.97%
Medium/long-term			
Fixed interest	201,900	-	1.70%-4.52%
Floating interest	234,073	-	0.52%-2.99%
Floating interest subordinated loan	1,935,054	-	2.06%-6.35%
Total	**14,854,469**		

Repayment plan of medium and long-term borrowings is as follows:

	31 December 2016		31 December 2015	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2017	-	-	43,148	366,474
2018	41,194	12,946	47,717	2,142
2019	-	683	-	789
2020	-	186,972	-	159,504
2021	-	-	-	-
2022	111,391	-	111,035	-
Thereafter	-	1,938,301	-	1,640,218
Total	**152,585**	**2,138,902**	**201,900**	**2,169,127**

15. FUNDS BORROWED (continued)

The Bank has obtained a primary subordinated loan by issuing a bond amounting to USD 100 million as of 31 July 2007. The investor of the bond is IFC. The maturity of the borrowing is indefinite with semi-annually interest payment. The interest rate is defined as LIBOR + 3.5% until 31 July 2017. In case the borrowed amount is not repaid at that date, the interest rate will be revised as LIBOR + 5.25%. In case of notes which are issued as perpetual are not redeemed until 1 August 2017, IFC has two options as follows: i) converting the notes to common share at an agreed price. ii) revising the interest rate of the perpetual notes as LIBOR + 5.25%.

The Bank has obtained secondary subordinated loans by issuing a bond amounting to EUR75 million as of 4 November 2011 and a bond amounting to EUR 100 million as of 21 December 2011. The bond issue on 21 December 2011 amounting to EUR 100 million is added up with the first issue of EUR 75 million and together will be followed as EUR 175 million. Since the coupon rate of the issue amounting to EUR 100 million is semi-annual Euribor + 5.25% and two issues stated above will be merged and the merged issue will carry the coupon rate of the first issue (Euribor + 4.75% on an annual basis), the price of EUR 100 million issue has been determined as 96.026% (the price determined as the 12 month interest difference between two issues discounted by new issues semi-annual coupon rate of Euribor + 5.25%). As interest payment periods of the new issue will be same with the first one, 47-day interest accrual amounting to EUR 852,527.78 related to the period between 4 November 2011 and 21 December 2011 was paid to the Bank by the investor purchasing the second issue. On 21 December 2011, total net amount of EUR 96,878,527.78 is transferred to the bank accounts. Debt instruments issued by BNP Paribas have been amended in 2015 to comply with article 8/2 which includes clauses such as write-down or conversion to common shares. After the approval of the BRSA, debt instruments have complied with the regulation without changing their issue dates.

The Bank, during its Board of Directors’ meeting dated 8 May 2012 has resolved to issue a debt instrument as Secondary Subordinated debt instrument with a value of USD 65 million on 14 May 2012. The semiannually interest rate of the issuance is determined as USD Libor + 5.75%. The due date of the debt instrument is determined as 14 May 2024 and for the first seven years there is no option to repay before its due date. The debt instrument can be amortized on 14 May 2019 with the decision of the Board of Directors and upon the approval of Banking Regulation and Supervision Agency (BRSA).

The Parent Bank has resolved to issue a Secondary Subordinated Debt in the amount of EUR100 million on 20 July 2012. The interest rate of the issuance has been determined as semi-annually EURIBOR + 4.75%. The due date of the debt instrument is 20 July 2024 and there is no option to repay within the first seven years. The debt instrument can be amortized on 20 July 2019 with the resolution of the BoD and upon the approval of the BRSA. After the approval of the BRSA, debt instruments have been complied with article 8/2(ğ) of “Regulation on Equity of Banks” without changing their issue dates.

The Parent Bank has resolved to issue a Secondary Subordinated Debt in the amount of EUR125 million on 25 June 2013. The interest rate of the issuance has been determined as semi-annually EURIBOR + 2.1%. There is no option to repay within the first five years. The debt instrument can be amortized on 27 June 2018 with the resolution of the BoD and upon the approval of the BRSA. After the approval of the BRSA, debt instruments have been complied with article 8/2(ğ) of “Regulation on Equity of Banks” without changing their issue dates.

The Bank has resolved to issue a Secondary Subordinated Debt in the amount of USD 65 million on 25 June 2013. The interest rate of the issuance has been determined as semi-annually EURIBOR + 3.40%. There is no option to repay within the first five years. The debt instrument can be amortized on 28 June 2018 with the resolution of the BoD and upon the approval of the BRSA. Since the product has lost the ability to become a subordinated instrument in line with the regulation issued by the BRSA on 31 March 2016, the bank has become possessed to amortize this instrument before its maturity, but the bank has decided not to use its right as of today.

The above mentioned six subordinated loans are utilized in-line with the “loan capital” definition of BRSA and will positively affect the capital adequacy ratio of the Bank as well as utilizing long term funding.

The Bank diversifies its funding sources through customer deposit and borrowings from abroad. As of 31 December 2016 foreign borrowings of the Bank includes syndication loan obtained with the agreement dated 31 August 2016, and 7 September 2017 maturity amounting to EUR 352,000,000 and USD 205,000,000.

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

16. OTHER LIABILITIES AND PROVISIONS

	31 December 2016	31 December 2015
Other liabilities		
Payables to credit card member firms	578,258	521,665
Cheque clearing account	468,351	723,466
Payables to banks for credit cards transactions	354,596	345,943
Collaterals for derivatives	220,914	105,064
Deferred insurance commission income	200,820	205,150
Taxes and compulsory surcharges other than on income	141,639	125,425
Other transitory accounts	124,148	77,877
Bonus premium accrual	109,125	93,430
Trade and other payables	57,912	41,878
Payables for promotions of credit cards and banking services	11,508	11,284
Blocked bank cheques	3,258	17,881
Payment orders	2,088	3,925
Others	138,083	116,287
	2,410,700	**2,389,275**
Provisions		
Employee termination benefits	129,181	102,153
Provision for legal cases	53,365	42,028
Reserve for impairment of non-cash loans (specific and portfolio)	41,436	41,055
Unused vacation pay liability	16,894	19,381
Provisions for possible outcomes of certain tax disputes	4,576	1,211
Other provisions	74,733	31,043
	320,185	**236,871**
Total	**2,730,885**	**2,626,146**

Employee Termination Benefits

In accordance with existing social legislation, TEB and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL4,297.21 (full TL) and TL3,828.37 (full TL) at 31 December 2016 and 2015, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of 31 December 2016 and 2015, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	31 December 2016	31 December 2015
Discount rate	10.00%	10.30%
Expected rate of inflation	5.00%	5.00%
Salary increase rate above inflation rate	1.00%	1.00%

Movements in the present value of the employee termination benefit obligations in the current year were as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Opening defined benefit obligation	102,153	101,658
Current service cost	12,234	13,524
Interest cost	10,324	8,618
Actuarial losses / (gains)	11,983	(14,467)
Settlement cost	5,938	3,361
Benefits paid	(13,451)	(10,541)
Closing defined benefit obligation, recognized in the balance sheet	**129,181**	**102,153**

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

16. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits (continued)

Amounts recognized in profit and loss in respect of employee termination benefit plan are as follows:

	31 December 2016	31 December 2015
Current service cost	12,234	13,524
Interest cost	10,324	8,618
Settlement loss	5,938	3,361
Total	**28,496**	**25,503**

Retirement Benefits

The employees who have joined the Bank as a consequence of the merger of TEB and Fortis Bank are members of the “Pension Fund Foundation” established in accordance with the Social Security Law No.506, Article No.20.

The liabilities described in the Note 2.3 Summary of Significant Accounting Policies, Judgments and Estimates – Employee Benefits section which may arise during the transfer have been calculated by the actuary based on the principles of the related regulation, whereas the liabilities in connection with other social rights and benefits which will not be undertaken by the SSI after the transfer have been calculated by the actuary based on IAS 19 principles. Based on the actuarial reports prepared as of 31 December 2016 and 31 December 2015, the Retirement Fund has a surplus. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

Based on the determined assumptions,

Transferrable Retirement and Health Liabilities:	31 December 2016	31 December 2015
Net Present Value of Transferrable Retirement Liabilities	(1,255,328)	(1,146,530)
Net Present Value of Transferrable Retirement and Health Contributions	524,026	505,725
General Administration Expenses	(12,553)	(11,465)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(743,855)	(652,270)
Fair Value of Plan Assets (2)	1,707,479	1,537,369
Asset Surplus over Transferable Benefits ((2)-(1)=(3))	963,624	885,099
Non-Transferable Benefits (4)	(257,435)	(240,435)
Asset Surplus over Total Benefits ((3)-(4))	706,189	644,664

Change in the present value of the defined-benefit obligation:

	31 December 2016	31 December 2015
DBO at start of period	**892,705**	**713,193**
Service cost	27,714	26,775
Interest expense on the DBO	24,006	17,738
Benefits paid from the Fund	(10,351)	(9,634)
Actuarial (gain)/loss – change in transfer value to SGK	70,420	126,172
Actuarial (gain)/loss – financial assumptions	5,421	(63,270)
Actuarial (gain)/loss – demographic assumptions	-	-
Actuarial (gain)/loss – experience	(8,625)	81,731
DBO at end of period	**1,001,290**	**892,705**

Change in the fair value of plan assets:

	31 December 2016	31 December 2015
Fair value of plan assets at start of period	**1,537,369**	**1,387,693**
Interest income on plan assets	90,407	77,094
Return on plan assets excluding amounts included in interest income	70,023	63,553
Employer contributions	21,165	19,736
Employee contributions	-	-
Fund benefits	(10,351)	(9,634)
Expenses	(1,134)	(1,073)
Fair value of plan assets at end of period	**1,707,479**	**1,537,369**

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

16. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits (continued)

Amounts recognized in the Balance Sheet

	31 December 2016	31 December 2015
Present value of obligations	1,001,290	892,705
Fair value of plan assets	(1,707,479)	(1,537,369)
Adjustment for impact of asset ceiling	706,189	644,664
Net Liability/(Asset) in Balance Sheet	**-**	**-**

Distribution of total assets of the Retirement Fund as of 31 December 2016 and 31 December 2015 is presented below:

	31 December 2016		31 December 2015	
	Quoted	**Not Quoted**	**Quoted**	**Not Quoted**
Bank placements	-	1,608,655	-	1,424,127
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	-	-	-	-
Tangible assets	-	85,453	-	79,720
Other	-	13,371	-	33,522
Total	**-**	**1,707,479**	**-**	**1,537,369**

Actuarial assumptions used in valuation of liabilities except for transferrable liabilities based on IAS 19 are as follows:

	31 December 2016	31 December 2015
Discount Rate	10.15%	10.30%
Expected Inflation Rate	5.00%	5.00%

As of 31 December 2016, medical inflation is expected more than 20% of inflation rate (31 December 2015: 20%). In order to represent the expected mortality rates before and after the retirement, CSO 2001 (31 December 2015: CSO 2001) Female/Male mortality table is used.

17. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on each company's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate was 20% in 2016 and 2015 in Turkey.

Effective tax rate of the consolidated foreign subsidiaries established in the Netherlands was 25% in 2015.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2016 (2015: 20%).

Losses are allowed to be carried for maximum 5 years to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1st and 25th of the fourth month following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within the following five years.

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

17. INCOME TAXES (continued)

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, if any, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

As of 31 December 2016 and 2015 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2016	31 December 2015
Income tax liability	346,787	308,197
Advance income taxes	(345,278)	(198,242)
Total	**1,509**	**109,955**

Major components of income tax expense for the year ended 31 December 2016 and 2015 are:

	31 December 2016	31 December 2015
Consolidated income statement		
Current income tax (charge)/benefit – from continuing operations	(183,418)	(213,119)
Relating to origination and reversal of temporary differences – from continuing operations	(32,778)	19,337
Current income tax (charge)/benefit – from discontinuing operations	-	(13,459)
Relating to origination and reversal of temporary differences – from discontinuing operations	-	(1,773)
Income tax (charge)/benefit reported in consolidated income statement	**(216,196)**	**(209,014)**

Reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Profit before income tax	**1,029,960**	**1,048,738**
At Turkish statutory income tax rate of 20%	(205,992)	(209,748)
Income not subject to tax	117	205
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	(10,321)	529
Income tax	**(216,196)**	**(209,014)**

Deferred income tax

Deferred income tax at 31 December 2016 and 2015 relates to the following:

	Consolidated Balance Sheet		Change in Deferred Income Tax	
	2016	**2015**	**2016**	**2015**
Deferred income tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	6,060	8,386	(2,326)	(1,302)
Effect of valuation of derivatives and hedge accounting	65,137	6,791	58,346	(33,787)
Valuation differences of trading and investment securities	14,649	42,413	(27,764)	(57,700)
Gross deferred income tax liabilities	**85,846**	**57,590**	**28,256**	**(92,789)**
Deferred income tax assets				
Impairment provisions on loans and receivables	100,854	92,190	8,664	5,341
Deferred fee and commission income	55,344	56,745	(1,401)	(6,860)
Employee termination benefits and vacation pay liability	29,215	24,307	4,908	(742)
Bonus premium accrual	21,825	18,686	3,139	(244)
Others	26,819	20,430	6,389	(1,270)
Gross deferred income tax assets	**234,057**	**212,358**	**21,699**	**(3,775)**
Deferred income tax asset, net	**148,211**	**154,768**	**(6,557)**	**89,014**

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

17. INCOME TAXES (continued)

Movement of net deferred tax asset can be presented as follows:

	31 December 2016	31 December 2015
Balance at January 1	**154,768**	**181,154**
Deferred income tax credit /(charge) recognized in income statement, net	(32,778)	19,337
Deferred income tax (charge)/ credit recognized in other comprehensive income	26,221	(43,699)
- Available for sale	12,686	(3,980)
- Cash flow hedge	12,610	(35,265)
- Actuarial gains and losses	925	(4,454)
Foreign exchange effect	-	144
Effect of sale of subsidiary	-	(2,168)
Balance at 31 December	**148,211**	**154,768**

Reflected as:

	31 December 2016	31 December 2015
Deferred tax asset	148,211	154,768

18. DERIVATIVES

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

The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period end and are neither indicative of the market risk nor credit risk.

	31 December 2016			31 December 2015		
Derivatives held-for-trading	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Forward contracts	218,186	122,612	10,787,209	120,331	69,352	9,743,982
Currency swap contracts	523,221	575,358	59,568,587	220,059	369,583	37,434,806
Cross currency swap contracts	150,000	75,787	1,987,340	61,625	1,817	672,196
Interest rate swap contracts	17,429	24,252	3,626,826	19,482	8,022	4,740,964
Call & put option contracts	160,579	144,605	20,717,633	72,620	70,623	13,191,207
Other	213	-	11,560	-	-	3,630
Total	**1,069,628**	**942,614**	**96,699,155**	**494,117**	**519,397**	**65,786,785**

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

18. DERIVATIVES (continued)

Derivatives settled on a gross basis

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:					
Foreign exchange derivatives:					
- Inflow	19,850,079	10,570,150	12,050,512	4,257,552	48,585
- Outflow	19,919,226	10,476,308	13,229,919	4,324,847	60,326
Interest rate derivatives:					
- Inflow	1,052	13,460	7,603	8,310	969
- Outflow	1,747	14,119	6,665	6,444	855
Derivatives held for hedging:					
Foreign exchange derivatives:					
- Inflow	76,531	93,279	410,580	299,995	-
- Outflow	465,939	214,238	1,069,889	1,201,048	-
Total inflow	**19,927,662**	**10,676,889**	**12,468,695**	**4,565,857**	**49,554**
Total outflow	**20,386,912**	**10,704,665**	**14,306,473**	**5,532,339**	**61,181**

Fair value hedge

In 2015, the Bank applied fair value hedge accounting in order to avoid the effects of interest rate fluctuations in the market by matching its swap portfolio with its loans and marketable securities. As of 31 December 2015, net fair value of derivative instruments used for hedging purposes is TL1,913 (31 December 2016: Nil). The Bank accounts TL50,301 expense (31 December 2016: Nil) for derivative instruments used for hedging purposes and TL4,164 expense (31 December 2016: Nil) from hedged item loans in the financial statements.

Cash flow hedge

The Bank has applied cash flow hedge accounting by matching its swap portfolio with total notional amounting to TL14,413,286 and 1-90 days of maturity deposit portfolio together with selected borrowing portfolio. Effective portion of TL38,136 (31 December 2015: TL101,180 credit) credit accounted for under equity is presented after deducting its deferred tax effect of TL7,627 (31 December 2015: TL20,237 credit) debit in the financial statements. In 2016, the ineffective portion of TL4,528 expense (31 December 2015: TL877 expense) is accounted for under income statement.

	31 December 2016			31 December 2015		
Derivatives used for cash flow hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Swap contracts	180,415	53,156	1,752,615	19,354	2,082	1,560,678
Interest rate swap contracts	14,905	231,336	12,660,671	38,955	157,134	12,697,960
	195,320	**284,492**	**14,413,286**	**58,309**	**159,216**	**14,258,638**

19. SHARE CAPITAL

	31 December 2016	31 December 2015
Total number of shares, TL 1.00 (full TL) par value	2,204,390 Thousand	2,204,390 Thousand

As of 31 December 2016 and 31 December 2015, the composition of shareholders and their respective ownerships are summarized below:

	31 December 2016		31 December 2015	
	Amount	**%**	**Amount**	**%**
TEB Holding A.Ş.	1,212,415	55.00	1,212,415	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	518,342	23.51
BNP Paribas Fortis Yatırımlar Holding A.Ş.	467,879	21.23	467,879	21.23
BNPP Paribas	5,253	0.24	5,253	0.24
Kocaeli Ticaret Odası	501	0.02	501	0.02
Total	**2,204,390**	**100.00**	**2,204,390**	**100.00**

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

20. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement of Legal Reserves and Retained Earnings

	31 December 2016				31 December 2015			
	Legal Reserves	Other Capital Reserves	Retained Earnings	Total	Legal Reserves	Other Capital Reserves	Retained Earnings	Total
At 1 January	**230,800**	**1,084,258**	**3,613,131**	**4,928,189**	**196,866**	**1,084,258**	**2,808,327**	**4,089,451**
Transfer from retained earnings	46,592	-	(46,592)	-	33,934	-	(33,934)	-
Dividends paid	-	-	-	-	-	-	-	-
Net profit for the year (Attributable to the equity holders of the Parent)	-	-	812,573	812,573	-	-	838,738	838,738
At 31 December	**277,392**	**1,084,258**	**4,379,112**	**5,740,762**	**230,800**	**1,084,258**	**3,613,131**	**4,928,189**

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the entity's share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% of all cash dividend distributions.

Dividends Paid and Proposed

Final dividends are not accounted for until they are ratified at the Annual General Meeting.

Movements of Unrealized Gains/ Losses on Available-for-Sale Investments, Net of Tax

	31 December 2016	31 December 2015
At 1 January	**(8,059)**	**(24,371)**
Net unrealized gains on AFS	33,314	44,415
Realized (gains) on AFS recycled to income statement on disposal	(95,425)	(24,109)
Tax effect of net gains on AFS	12,686	(3,994)
Total	**(57,484)**	**(8,059)**

Movements of Cash Flow Hedge Fund, Net of Tax

	31 December 2016	31 December 2015
At 1 January	**80,943**	**(60,118)**
(Losses) / gains on cash flow hedges	(68,833)	179,875
Realized losses/(gains) on cash flow hedges to income statement	5,789	(3,548)
Tax effect of gains on cash flow hedges	12,610	(35,266)
Total	**30,509**	**80,943**

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

21. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below.

	Opening	**Cash**	**Increase Related to Merger**	**Transfers from Retained Earnings**	**Transfers From Revaluation Surplus**	**Reinvestment of Dividend Payments**	**Total**	**Closing**
Before 1995	-	150	-	3,000	250	-	3,400	3,400
1996	3,400	-	-	-	330	1,270	1,600	5,000
1997	5,000	-	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	-	529	682	7,277	14,000	25,000
1999	25,000	-	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	-	110,250
2003	110,250	-	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	-	115,600
2006	57,800	18,700	-	-	-	-	18,700	76,500
2007	76,500	210,000	-	216,750	251,750	-	678,500	755,000
2008	755,000	345,000	-	-	-	-	345,000	1,100,000
2009	1,100,000	-	-	-	-	-	-	1,100,000
2010	1,100,000	-	-	-	-	-	-	1,100,000
2011	1,100,000	-	1,050,000	54,390	-	-	1,104,390	2,204,390
2012	2,204,390	-	-	-	-	-	-	2,204,390
2013	2,204,390	-	-	-	-	-	-	2,204,390
2014	2,204,390	-	-	-	-	-	-	2,204,390
2015	2,204,390	-	-	-	-	-	-	2,204,390
2016	2,204,390	-	-	-	-	-	-	2,204,390

The following reflects the income (in full TL) and share data (in thousand) used in the basic earnings per share computations:

	31 December 2016	**31 December 2015**
Net profit from continuing operations attributable to ordinary shareholders	812,573	737,001
Weighted average number of ordinary shares for basic earnings per share	2,204,390	2,204,390
From continuing operations attributable to ordinary shareholders for basic earnings per share	0.3686	0.3343
From continuing operations attributable to ordinary shareholders for diluted earnings per share	0.3686	0.3343
Net profit from discontinuing operations attributable to ordinary shareholders	-	101,737
Weighted average number of ordinary shares for basic earnings per share	2,204,390	2,204,390
From discontinuing operations attributable to ordinary shareholders for basic earnings per share	-	0.0462
From discontinuing operations attributable to ordinary shareholders for diluted earnings per share	-	0.0462

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these consolidated financial statements.

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

22. RELATED PARTY DISCLOSURES

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 the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of the Bank. For the purpose of these consolidated financial statements, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities including Fortis Bank Group are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the normal course of its business, the Group conducted various business transactions with related parties on normal commercial terms and conditions. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at period-ends and relating expense and income for the period are as follows:

31 December 2016:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct shareholders	-	-	-	10,309	-	-	2,341	-	-	1	702	262	23,186
Indirect shareholders	-	188,104	6,491,540	1,345,129	246,624	270,252	489	210,908	28,307,720	2,364	172,945	1,879	149
Others	2,116	124,716	1,432,448	1,095,132	102,305	568	248	1,142	247,304	1,408	103,002	10,580	19,276

31 December 2015:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct shareholders	380	-	-	5,009	-	-	-	-	-	3,826	1,604	735	20,464
Indirect shareholders	1,255	300,290	6,322,179	1,269,884	19,313	114,473	-	54,050	11,167,370	1,449	18,989	-	-
Others	8,844	62,162	-	284,029	22,510	1,434	2,930	1,107	408,011	1,401	273,540	13,591	19,274

(*) "Direct shareholders" of the Group corresponds to TEB Holding A.Ş., BNP Yatırımlar Holding A.Ş. and BNP Paribas Fortis Yatırımlar Holding A.Ş.. "Indirect shareholders" of the Group corresponds to BNP Paribas SA, Çolakoğlu family members, Denak Depoculuk ve Nakliyecilik A.Ş., Çolakoğlu Metalurji A.Ş., Galata Yatırım Holding A.Ş.. "Others" corresponds to all other Çolakoğlu Group companies and BNP Paribas Group companies.

No provisions have been recognized in respect of loans given to related parties (31 December 2015: Nil).

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TL36,470 as of 31 December 2016 (31 December 2015: TL39,295) comprising mainly salaries and other short-term benefits.

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

23. SALARIES AND EMPLOYEE BENEFITS EXPENSE

	31 December 2016	31 December 2015
Wages and salaries	770,934	717,239
Cost of defined contribution plan (employers' share of social security premiums)	140,082	127,945
Bonuses	83,860	65,636
Provision for employee termination benefits	28,496	25,503
Other fringe benefits	100,524	88,176
Total	**1,123,896**	**1,024,499**

24. OTHER OPERATING EXPENSES

	31 December 2016	31 December 2015
Maintenance and various administrative expenses	387,189	363,112
Rent expenses	217,625	205,504
Advertisement expenses	91,613	79,466
Communication expenses	78,015	74,020
Total	**774,442**	**722,102**

25. NET GAIN/LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Remeasurement of foreign currency position	(766,667)	(1,322,473)
Derivatives – held for trading fair value	317,523	665,032
Derivatives – held for trading - interest	(23,174)	(30,245)
Derivatives – hedging instruments - fair value	155,131	99,421
Remeasurement of interest-rate risk hedged portfolios	(1,913)	(4,164)
Net loss on securities held for trading	(17,312)	(20,231)
Change in fair value of AFS securities hedged by fair value hedge	-	(150)
Total	**(336,412)**	**(612,810)**

Gains less losses on trading securities arise primarily from fixed income securities.

26. FEES AND COMMISSIONS INCOME AND EXPENSES

	31 December 2016	31 December 2015
Fees and commissions income		
Banking	1,231,770	1,286,586
Insurance	117,832	131,070
Brokerage	49,547	52,367
Fund management	32,738	32,129
Total	**1,431,887**	**1,502,152**
Fees and commissions expenses		
Banking	409,779	438,006
Other	54,322	51,110
Total	**464,101**	**489,116**

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

27. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	31 December 2016	31 December 2015
Letters of guarantee issued	11,625,411	9,867,130
Letters of credit	1,720,120	1,406,746
Acceptance credits	40,100	48,830
Other guarantees	4,136,349	3,176,115
Total non-cash loans	**17,521,980**	**14,498,821**
Other commitments	9,525,729	8,754,499
Credit card limit commitments	4,648,912	4,580,727
Total	**31,696,621**	**27,834,047**

The Group has TL363,290 (31 December 2015: TL197,382) letters of guarantee obtained from other banks.

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying consolidated financial statements.

Investment fund participation certificates held in custody which belong to the customers and the portfolio are accounted for with their nominal values. As of 31 December 2016 the total nominal value and number of certificates are TL8,254,360 and TL8,254,360 thousand (31 December 2015: TL9,864,449 and TL9,864,957) and the total fair value is TL1,850,454 (31 December 2015: TL1,532,293).

The Group has TL32,738 (31 December 2015: TL32,129) fund management commission income.

The Group also manages thirty three investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Letters of Guarantee Given to Borsa Istanbul (BIST) and Istanbul Gold Market (IGM)

As of 31 December 2016, in line with the requirements of IGM, letters of guarantee amounting to TL1,190 (31 December 2015: TL1,190) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 31 December 2016, according to the general requirements of the BIST, letters of guarantee amounting to TL42,776 (31 December 2015: TL42,776) had been obtained from various local banks and were provided to BIST for bond and stock market transactions.

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice. The Group has provided TL53,365 (31 December 2015: TL42,028) provision for legal cases.

Other

The branch premises that are leased under operational leases periods vary between 1 and 10 years and lease agreements are cancellable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

28. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of matters reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

The mission of the Group Risk Management is to inform Board of Directors, General Management and the Audit Committee of the status of risks to which the Group is exposed and to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives. It compiles regulatory statements and financial reporting regarding risk management and measurement.

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Group. They have the ultimate responsibility of ensuring that senior management establishes and maintains an adequate and effective system of internal control.

The responsibility of the Audit Committee is to coordinate all the risk management activities within the bank and supervise the parties involved in Internal Control. In doing so, the Committee ensures establishment of an efficient and effective risk management.

Credit Risk

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Bank and operating companies.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the Bank and operating companies. Along with the Credit Committee, Financial Institutions and Country Risk Committee work as a sub-committee on a Group basis.

Credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of Corporate and SME clients.

Counterparty limits are daily monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are closely monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored on a daily basis.

The credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending.

In order to control the concentration risk, sector specific limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to customer groups in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, and impairment allowances as well as default and recovery rates.

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

28. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Each operating company is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolio and controlling all credit risks.

After a loan facility is offered, the Credit Monitoring Department monitors the customer's repayment capability and the sufficiency and adequacy of the collateral. In this way, any problematic loan is identified at an early stage.

Both collective and specific provisions are made with methodologies which are compliant with both IFRS standards and BNP Paribas methodologies.

Netting is a technique used by the Group to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

An industry sector analysis of the Group's financial assets, non-cash loans and commitments are as follows;

	31 December 2016	31 December 2015
Wholesale and retail trade activities	17,547,332	12,864,262
Private individuals	16,741,957	17,551,833
Banks	16,093,094	12,243,739
Construction & public works	6,986,913	6,338,298
Government	4,671,092	4,675,863
Transportation	4,334,987	3,937,501
Real Estate and Rental Services	4,135,876	3,283,528
Finance	2,345,633	1,032,824
Hotels, Tourism, Leisure	2,089,640	1,679,671
Farming and raising livestock	1,609,811	2,927,114
Ores & Materials	1,357,392	1,434,295
Automotive	661,281	339,163
Healthcare & Pharmacy	557,434	597,293
Energy	543,017	275,018
Property	149,469	13,791
Food	145,016	76,799
Technology	47,656	30,888
Equipment materials	44,019	31,997
Chemical	43,433	65,813
Others	30,726,834	29,460,371
Total	**110,831,886**	**98,860,061**

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	31 December 2016	31 December 2015
Cash and balances with Central Banks (excluding cash on hand)	10,928,450	9,211,595
Loans and receivables due from banks	1,898,629	2,479,512
Other money market placements	2,001,067	206
Financial assets at fair value through profit and loss	1,272,822	699,939
Derivative used for hedging purposes	195,320	58,309
Available -for-sale financial assets	4,106,390	4,130,624
Held-to-maturity investments	361,508	339,417
Loans and receivables and factoring receivables	57,068,949	52,737,399
Remeasurement adjustment on interest-rate risk hedged portfolios	-	1,913
Other assets	1,302,130	1,367,100
Total	**79,135,265**	**71,026,014**
Contingent liabilities	17,521,980	14,498,821
Commitments	14,174,641	13,335,226
Total	**31,696,621**	**27,834,047**
Total credit risk exposure	**110,831,886**	**98,860,061**

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

28. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 31 December 2016 and 2015 are as follows;

31 December 2016	Neither past due nor impaired	Past due but not impaired or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	2,001,067	-	-	2,001,067
Loans and receivables due from banks	1,898,629	-	-	1,898,629
Financial assets designated at fair value through profit or loss	1,272,822	-	-	1,272,822
Derivative financial instruments held for hedging	195,320	-	-	195,320
Loans and receivables	52,222,497	3,650,905	(488,477)	55,384,925
Commercial	36,444,421	2,408,284	(385,768)	38,466,937
Consumer	12,811,765	1,021,013	(73,455)	13,759,323
Credit Cards	2,857,776	221,608	(29,254)	3,050,130
Other	108,535	-	-	108,535
Factoring receivables	1,658,617	26,413	(1,006)	1,684,024
Remeasurement adjustment on interest rate risk hedged portfolio	-	-	-	-
Investment securities	4,424,692	-	-	4,424,692
Available-for-sale (*)	4,063,184	-	-	4,063,184
Held-to-maturity	361,508	-	-	361,508
Total	**63,673,644**	**3,677,318**	**(489,483)**	**66,861,479**

31 December 2015	Neither past due nor impaired	Past due but not impaired or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	206	-	-	206
Loans and receivables due from banks	2,479,512	-	-	2,479,512
Financial assets designated at fair value through profit or loss	699,939	-	-	699,939
Derivative financial instruments held for hedging	58,309	-	-	58,309
Loans and receivables	49,265,213	2,715,709	(455,775)	51,525,147
Commercial	33,979,422	1,644,992	(353,869)	35,270,545
Consumer	12,514,336	878,730	(71,986)	13,321,080
Credit Cards	2,685,186	191,987	(29,920)	2,847,253
Other	86,269	-	-	86,269
Factoring receivables	1,173,420	39,841	(1,009)	1,212,252
Remeasurement adjustment on interest rate risk hedged portfolio	1,913	-	-	1,913
Investment securities	4,373,347	-	-	4,373,347
Available-for-sale (*)	4,033,930	-	-	4,033,930
Held-to-maturity	339,417	-	-	339,417
Total	**58,051,859**	**2,755,550**	**(456,784)**	**60,350,625**

(*) TL43,206 (31 December 2015: TL96,694) equity securities not included.

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2016	31 December 2015
Loans and receivables		
Commercial	1,386,772	897,747
Consumer	128,366	79,201
Credit Cards	69,144	44,203
Total	**1,584,282**	**1,021,151**

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

28. FINANCIAL RISK MANAGEMENT (continued)

Credit Rating System

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2016, consumer loans and business loans are excluded from the internal rating system of the Bank and those loans are 35.02% of total loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total % 31.12.2016	Share in the Total % 31.12.2015
1st Category	The borrower has a very strong financial structure	34.56	35.82
2nd Category	The borrower has a good financial structure	29.56	28.23
3rd Category	The borrower has an intermediate level of financial structure	28.97	29.86
4th Category	The financial structure of the borrower has to be closely monitored in the medium term	6.91	6.09
	Total	**100.00**	**100.00**

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflow to fulfill the cash outflow completely on time.

The Group’s policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self-sufficient with regard to funding requirements for its own operations.

The Group’s liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

Asset and Liability Management Committee (ALCO) defines ALM policies and monitor the results weekly. Asset Liability Management and Treasury (ALM/T) Group has the responsibility for managing funding on money markets and financial markets from short to medium and long term financing and also provides funds to core business lines at TEB and to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

The main source of funding to cover the liquidity requirements is customer deposits and in addition to this source, issuing bonds, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source. Generally the Group does not prefer the liquidity generated from interbank money markets to become the main form of funding and accordingly the Group is generally a net lender in interbank money markets.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

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. The most important among these is to maintain limits on the ratio of the Bank’s net liquid assets to customer liabilities, set to reflect market conditions. Consolidated Liquidity Coverage Ratio as of 31 December 2016 presented below:

	TL+FC	FC
December 2016	158.82%	180.08%

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

28. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated (*)	Total
As at 31 December 2016						
Assets:						
Cash and balances with central banks	11,825,595	-	-	-	-	11,825,595
Loans and receivables due from banks	1,753,632	122,845	21,375	777	-	1,898,629
Other money market placements	2,001,067	-	-	-	-	2,001,067
Financial assets at fair value through profit and loss	138,229	270,694	555,272	308,627	-	1,272,822
Derivatives used for hedging purposes	42,430	-	87,754	65,136	-	195,320
Available-for-sale financial assets	277,399	490,080	585,524	2,710,181	43,206	4,106,390
Loans and receivables	14,939,049	2,652,960	10,089,977	27,148,548	554,391	55,384,925
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	-	-	-
Factoring receivables	823,832	688,873	148,719	12,711	9,889	1,684,024
Held-to-maturity investments	-	-	-	361,508	-	361,508
Premises and equipment	-	-	-	-	245,035	245,035
Intangible assets	-	-	-	-	84,699	84,699
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	148,211	148,211
Other assets	5,147	221	405	48	1,296,309	1,302,130
Total assets	**31,806,380**	**4,225,673**	**11,489,026**	**30,607,536**	**2,802,385**	**80,931,000**
Liabilities:						
Deposits from other banks	180,985	-	-	-	-	180,985
Customers' deposits	41,988,140	6,696,036	937,420	8,605	-	49,630,201
Other money market deposits	1,457,750	-	-	-	-	1,457,750
Factoring payables	17,688	-	-	-	-	17,688
Financial liabilities at fair value through profit and loss	147,281	167,523	427,839	199,971	-	942,614
Derivatives used for hedging purposes	34,948	50,328	31,745	167,471	-	284,492
Debt securities	136,778	-	602,524	-	-	739,302
Funds borrowed	3,213,052	2,854,408	8,425,167	2,290,447	-	16,783,074
Other liabilities	1,008,061	1,791	1,528	-	1,399,320	2,410,700
Provisions	-	-	603	-	319,582	320,185
Income taxes payable	-	825	684	-	-	1,509
Total liabilities	**48,184,683**	**9,770,911**	**10,427,510**	**2,666,494**	**1,718,902**	**72,768,500**
Net liquidity gap	**(16,378,303)**	**(5,545,238)**	**1,061,516**	**27,941,042**	**1,083,483**	**8,162,500**
Non-cash loans (**)	**5,906,347**	**2,183,231**	**4,867,863**	**4,564,539**	**-**	**17,521,980**
As at 31 December 2015						
Total assets	27,554,031	3,688,356	10,412,455	28,317,974	2,797,933	72,770,749
Total liabilities	42,035,967	12,112,298	7,337,958	2,513,315	1,318,083	65,317,621
Net liquidity gap	**(14,481,936)**	**(8,423,942)**	**3,074,497**	**25,804,659**	**1,479,850**	**7,453,128**
Non-cash loans (**)	**5,433,817**	**1,278,432**	**4,287,456**	**3,499,116**	**-**	**14,498,821**

(*) The assets which are necessary to provide banking services and could not be liquidated in a short term, such as tangible assets, investments in subsidiaries and associates, office supply inventory, prepaid expenses and non-performing loans, are classified as under undistributed.

(**) The majority of the financing and guarantee commitments given in ‘Up to 1 month’ bracket, which amounted to TL5,086,011 (31 December 2015: TL4,663,871) can be drawn at sight.

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

28. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities;

	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustments	Total
As of 31 December 2016								
Customers' deposits	7,619,495	34,446,547	6,755,791	982,448	8,894	19	(182,993)	49,630,201
Deposits from other banks	4,710	176,310	-	-	-	-	(35)	180,985
Funds borrowed	-	3,288,943	2,893,047	8,837,032	399,048	2,490,672	(1,125,668)	16,783,074
Other money market deposits	-	1,458,678	-	-	-	-	(928)	1,457,750
Debt securities	-	143,301	-	630,108	-	-	(34,107)	739,302
Factoring payable	-	17,688	-	-	-	-	-	17,688
Non-cash loans	5,086,011	820,336	2,183,231	4,867,863	4,564,539	-	-	17,521,980
Total	**12,710,216**	**40,351,803**	**11,832,069**	**15,317,451**	**4,972,481**	**2,490,691**	**(1,343,731)**	**86,330,980**
As of 31 December 2015								
Customers' deposits	6,979,324	28,035,778	8,866,609	581,856	10,721	16	(211,229)	44,263,075
Deposits from other banks	1,078	107,788	5,765	-	-	-	(74)	114,557
Funds borrowed	-	3,017,319	3,104,129	6,759,002	938,462	2,018,428	(982,871)	14,854,469
Other money market deposits	-	2,387,614	-	-	-	-	(2,827)	2,384,787
Debt securities	-	197,003	79,180	-	-	-	(5,520)	270,663
Factoring payable	-	15,356	-	-	-	-	-	15,356
Non-cash loans	4,663,871	769,946	1,278,432	4,287,456	3,499,116	-	-	14,498,821
Total	**11,644,273**	**34,530,804**	**13,334,115**	**11,628,314**	**4,448,299**	**2,018,444**	**(1,202,521)**	**76,401,728**

Analysis of contractual expiry by maturity of the Group's some class of derivative financial instruments;

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As of 31 December 2016						
Hedging Portfolio						
Fair value hedge	-	-	-	-	-	-
Cash flow hedge	465,939	214,238	1,069,889	1,201,048	-	2,951,114
Trading Portfolio						
Forward contracts	1,303,090	1,202,908	1,957,968	916,474	58,510	5,438,950
Currency swaps	16,811,648	5,817,769	6,567,742	3,011,771	11,427	32,220,357
Interest rate swaps	1,747	14,119	6,665	6,444	855	29,830
Foreign currency options-sell	1,755,446	3,455,772	4,704,209	396,602	-	10,312,029
Total	**20,337,870**	**10,704,806**	**14,306,473**	**5,532,339**	**70,792**	**50,952,280**
As of 31 December 2015						
Hedging Portfolio						
Fair value hedge	-	-	-	-	-	-
Cash flow hedge	87,433	2,329,741	972,135	1,419,073	-	4,808,382
Trading Portfolio						
Forward contracts	996,674	1,314,266	1,735,437	867,762	22,292	4,936,431
Currency swaps	7,591,172	4,399,786	4,486,456	2,322,577	369,507	19,169,498
Interest rate swaps	3,266	6,583	22,581	12,910	1,801	47,141
Foreign currency options-sell	1,693,752	1,832,303	2,975,503	66,555	-	6,568,113
Total	**10,372,297**	**9,882,679**	**10,192,112**	**4,688,877**	**393,600**	**35,529,565**

Market Risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by Banking Regulation and Supervision Agency (BRSA), Capital Markets Board and other authorities. Only securities held to maturity are valued at amortized cost using internal rate of return.

The Board of Directors evaluates the probable risks and accordingly determines limits. Those limits are revised periodically in line with the strategies of the Group. The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

The Group Risk Management calculates and follows the several market risk limits set by the Board of Directors. Some of those are VaR, PV01, Interest Rate Delta and Vega limits. Finally, nominal stop loss and position limits for each product have been set.

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

28. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group evaluates the exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate fluctuations in the market.

The Board of Directors sets limits for the positions, which are followed up on a daily basis. Additionally, any possible changes in positions are closely monitored.

Generally, Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	Turkish Lira	Euro	US Dollars	Other	Total
As at 31 December 2016					
Assets:					
Cash and balances with central banks	1,995,455	3,752,194	5,200,082	877,864	11,825,595
Loans and receivables due from banks	178,373	641,096	557,717	521,443	1,898,629
Other money market placements	2,001,067	-	-	-	2,001,067
Financial assets at fair value through profit and loss	1,035,624	23,015	213,455	728	1,272,822
Derivatives used for hedging purposes	195,320	-	-	-	195,320
Available-for-sale financial assets	4,057,427	331	39,370	9,262	4,106,390
Loans and receivables	41,226,286	7,883,680	4,660,329	1,614,630	55,384,925
Factoring receivables	598,553	923,206	129,722	32,543	1,684,024
Held-to-maturity investments	361,508	-	-	-	361,508
Premises and equipment	245,035	-	-	-	245,035
Intangible assets	84,699	-	-	-	84,699
Goodwill	420,645	-	-	-	420,645
Deferred tax asset	148,211	-	-	-	148,211
Other assets	1,074,929	201,753	24,344	1,104	1,302,130
Total assets	**53,623,132**	**13,425,275**	**10,825,019**	**3,057,574**	**80,931,000**
Liabilities:					
Deposits from other banks	177,876	394	1,098	1,617	180,985
Customers' deposits	29,004,889	7,678,727	11,530,561	1,416,024	49,630,201
Other money market deposits	1,457,750	-	-	-	1,457,750
Financial liabilities at fair value through profit and loss	787,782	7,533	146,601	698	942,614
Derivatives used for hedging purposes	284,492	-	-	-	284,492
Factoring payables	6,677	9,929	389	693	17,688
Debt securities	739,302	-	-	-	739,302
Funds borrowed	601,155	8,196,570	5,974,708	2,010,641	16,783,074
Other liabilities	2,110,813	207,275	87,480	5,132	2,410,700
Provisions	314,456	5,680	49	-	320,185
Income taxes payable	1,509	-	-	-	1,509
Total liabilities	**35,486,701**	**16,106,108**	**17,740,886**	**3,434,805**	**72,768,500**
Net balance sheet position	**18,136,431**	**(2,680,833)**	**(6,915,867)**	**(377,231)**	**8,162,500**
Off-balance sheet position					
Net notional amount of derivatives	(8,853,291)	1,710,458	7,140,472	636,725	634,364
Non-cash loans (*)	7,440,755	5,140,913	4,748,746	191,566	17,521,980
Net position	**9,283,140**	**(970,375)**	**224,605**	**259,494**	**8,796,864**
At 31 December 2015					
Total assets	49,890,478	9,389,754	10,845,962	2,644,555	72,770,749
Total liabilities	36,134,689	11,247,549	14,918,550	3,016,833	65,317,621
Net balance sheet position	**13,755,789**	**(1,857,795)**	**(4,072,588)**	**(372,278)**	**7,453,128**
Off-balance sheet position					
Net notional amount of derivatives	(6,611,239)	2,394,962	4,012,959	428,477	225,159
Non-cash loans (*)	6,275,583	3,345,601	4,663,116	214,521	14,498,821
Net position	**7,144,550**	**537,167**	**(59,629)**	**56,199**	**7,678,287**

(*) There is no effect on the net off-balance sheet position.

The table above shows the Group's distribution of balance sheet and derivative foreign exchange transactions taking into account the options transactions with nominal values as indicated in the BRSA regulation on foreign currency position. Besides taking into account this position by monitoring legal limits, the Bank Risk Group also monitors the delta-adjusted position of the option transactions. As of 31 December 2016, the Bank has net TL3,898 USD short position and net TL12,007 EUR long position.

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

28. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table indicates in detail the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	Increase /(Decrease) Effect on profit or loss		Increase /(Decrease) Effect on equity excluding PL	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
USD	10 increase	(276)	14,786	(291)	(52)
USD	10 decrease	276	(14,786)	291	52
EUR	10 increase	732	(523)	3	6,005
EUR	10 decrease	(732)	523	(3)	(6,005)

The Group's sensitivity to foreign currency rates has not changed significantly during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of a change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of a change in market interest rates. The Group evaluates the exposure for the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position.

Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The ALCO is responsible of managing interest rate risk at the Bank.

The first principle of the Group regarding interest rate risk is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board of Directors, ALCO and the Audit Committee.

Maturities of outstanding assets are based on the contractual characteristics of the transactions.

i) The Bank only economic value differences resulted from interest rate instabilities calculated according to "Regulation on measurement and evaluation of interest rate risk resulted from the banking accounts as per standard shock method"

Type of Currency	Change in interest rate (+/- x basis point)	Gains/ (Losses)	Gains/Equity–(Losses)/Equity
TL	(400)	1,159,731	12.00%
TL	500	(1,236,043)	(12.78)%
EURO	(200)	309,368	3.20%
EURO	200	(266,012)	(2.75)%
USD	(200)	10,417	0.11%
USD	200	(7,650)	(0.08)%
Total (of negative shocks)	**(800)**	**1,479,516**	**15.31%**
Total (of positive shocks)	**900**	**(1,509,705)**	**(15.61)%**

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

28. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2016						
Assets :						
Cash and balances with central banks	9,329,920	-	-	-	2,495,675	11,825,595
Loans and receivables due from banks	1,109,610	122,845	21,375	777	644,022	1,898,629
Other money market placements	2,001,067	-	-	-	-	2,001,067
Financial assets at fair value through profit and loss	1,608	97,651	138,953	132,266	902,344	1,272,822
Derivatives used for hedging purposes	42,430	-	87,754	65,136	-	195,320
Available-for-sale financial assets	615,310	1,213,367	1,358,138	876,369	43,206	4,106,390
Loans and receivables	14,946,425	2,712,413	10,150,893	27,020,803	554,391	55,384,925
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	-	-	-
Factoring receivables	823,832	688,873	148,719	12,711	9,889	1,684,024
Held-to-maturity investments	36,415	100,709	224,384	-	-	361,508
Premises and equipment	-	-	-	-	245,035	245,035
Intangible assets	-	-	-	-	84,699	84,699
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	148,211	148,211
Other assets	21,306	-	-	-	1,280,824	1,302,130
Total Assets	**28,927,923**	**4,935,858**	**12,130,216**	**28,108,062**	**6,828,941**	**80,931,000**
Liabilities:						
Deposits from other banks	176,275	-	-	-	4,710	180,985
Customers' deposits	34,368,645	6,696,036	937,420	8,605	7,619,495	49,630,201
Other money market deposits	1,457,750	-	-	-	-	1,457,750
Financial liabilities at fair value through profit and loss	233	16,631	3,880	79,317	842,553	942,614
Derivatives used for hedging purposes	34,948	50,328	31,745	167,471	-	284,492
Factoring payables	-	-	-	-	17,688	17,688
Debt securities	136,778	-	602,524	-	-	739,302
Funds borrowed	3,621,865	5,428,492	7,588,339	144,378	-	16,783,074
Other liabilities	-	-	-	-	2,410,700	2,410,700
Provisions	-	-	-	-	320,185	320,185
Income taxes payable	-	-	-	-	1,509	1,509
Total liabilities	**39,796,494**	**12,191,487**	**9,163,908**	**399,771**	**11,216,840**	**72,768,500**
Balance sheet interest sensitivity gap	**(10,868,571)**	**(7,255,629)**	**2,966,308**	**27,708,291**	**(4,387,899)**	**8,162,500**
As at 31 December 2015						
Total assets	26,213,349	4,434,263	11,024,901	26,210,424	4,887,812	72,770,749
Total liabilities	33,921,887	12,201,805	8,346,088	606,424	10,241,417	65,317,621
Net interest sensitivity gap	**(7,708,538)**	**(7,767,542)**	**2,678,813**	**25,604,000**	**(5,353,605)**	**7,453,128**

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

28. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

The Group's capital base includes all types of regulatory eligible own funds, as these are defined by the BRSA, which differs from the total equity under IFRS. Among others, the Group's regulatory own funds include the share capital, the share premium account, the reserves, retained earnings, and subordinated debt issues.

The Group's total capital ratio is calculated by dividing its total capital, which comprises own funds eligible capital debt instruments general provisions per its statutory financial statements by the aggregate of its risk-weighted assets. In accordance with the BRSA guidelines the Group must, in general, maintain a total target capital ratio in excess of 12%.

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" and "Communiqué on Equities of Banks". The Group's consolidated capital adequacy ratio is 14.06% (31 December 2015: 13.71%) in accordance with the related Communiqué as of 31 December 2016.

The Bank have complied with the capital requirements throughout the year and the previous year.

	Consolidated		Parent Bank	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Risk Weighted Assets (including operational & market risk)	5,533,855	5,133,163	5,380,885	4,604,932
Common Equity Tier 1 Capital	7,352,542	6,585,280	7,297,421	6,530,893
Tier 1 Capital	7,352,542	6,585,317	7,297,421	6,530,893
Tier 2 Capital	2,379,949	2,225,718	2,378,888	2,224,660
Deductions from Capital	7,858	14,877	7,859	14,877
Total Capital	9,724,676	8,796,158	9,668,450	8,740,676
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	14.06	13.71	14.37	13.94
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	10.63	10.26	10.85	10.42
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	10.63	10.26	10.85	10.42

Operational Risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate and/or failed internal process and systems, arising from negligence or fraud of the staff members or stemming from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning, business continuity and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

The Compliance Function in Group Companies

The definition of compliance is adherence to statutory and regulatory provisions, professional and ethical standards, guidelines issued by the Board of Directors and Audit Committee and internal rules and procedures.

The Compliance Function is responsible for the coordination of permanent control among the Group in respect of the risk of non-compliance and operational risk. It shares this responsibility with other Functions like Risk Management, Legal, Operations, and Finance for their areas of competence. Its missions and responsibilities and delegations of powers it grants are specified in a responsibilities charter.

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

28. FINANCIAL RISK MANAGEMENT (continued)

Offsetting financial assets and financial liabilities

"Amounts set off on the balance sheet" have been determined according to IAS 32. Thus, a financial asset and a financial liability are offset and the net amount presented on the balance sheet when, and only when, the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The "Financial instruments" are relative to outstanding amounts of transactions within an enforceable agreement, which do not meet the offsetting criteria defined by IAS 32. This is the case of transactions for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the contracting parties.

"Cash collateral" includes guarantee deposits and securities collateral recognised at fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the contracting parties.

The following table presents the amounts of financial assets and liabilities before and after offsetting.

31 December 2016				**Related amounts not offset in the statement of financial position**		**Net amount**
	Gross amounts of financial assets/liabilities	**Gross amounts set off on the balance sheet**	**Net amounts presented in the balance sheet**	**Financial instruments**	**Cash collateral**	
Derivatives assets	1,264,948	-	1,264,948	642,161	220,914	401,873
Reverse repurchase agreements	2,001,067	-	2,001,067	2,001,067	-	-
Derivatives liabilities	1,227,106	-	1,227,106	642,161	197,194	387,751
Repurchase agreements	1,457,750	-	1,457,750	1,456,769	-	981

31 December 2015				**Related amounts not offset in the statement of financial position**		**Net amount**
	Gross amounts of financial assets/liabilities	**Gross amounts set off on the balance sheet**	**Net amounts presented in the balance sheet**	**Financial instruments**	**Cash collateral**	
Derivatives assets	552,426	-	552,426	267,786	105,064	179,576
Reverse repurchase agreements	206	-	206	206	-	-
Derivatives liabilities	678,613	-	678,613	267,786	261,049	149,778
Repurchase agreements	2,384,787	-	2,384,787	2,384,787	-	-

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets				
Loans and receivables due from banks	1,898,629	2,479,512	1,898,629	2,479,512
Other money market placements	2,001,067	206	2,001,067	206
Loans and receivables	55,384,925	51,525,147	54,993,713	51,390,211
Investment securities held-to-maturity	361,508	339,417	364,740	334,738
Factoring receivables	1,684,024	1,212,252	1,684,024	1,212,252
Financial liabilities				
Deposits from other banks and funds borrowed	16,964,059	14,969,026	16,964,059	14,969,026
Customers' deposits	49,630,201	44,263,075	49,810,440	44,041,308
Other money market deposits	1,457,750	2,384,787	1,457,750	2,384,787
Marketable securities issued	739,302	270,663	739,302	270,663

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations.

Deposits and Borrowings

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

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central banks, loans and receivables due from banks, other money market placements, factoring receivables and payables are considered to approximate their respective carrying values due to their short-term nature.

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

• Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

• Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length; and

• Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. An unobservable input is a parameter for which there are no market data available and that is therefore derived from proprietary assumptions about what other market participants would consider when assessing fair value.

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	203,194	1,069,628	-	1,272,822
Debt instruments	203,194	-	-	203,194
Derivatives held-for-trading	-	1,069,628	-	1,069,628
Derivatives used for hedging purposes	-	195,320	-	195,320
Available-for-sale financial assets	4,051,252	43,282	-	4,094,534
Debt instruments	4,051,252	11,932	-	4,063,184
Available-for-sale equity securities (**)	-	31,350	-	31,350
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	-
Total	**4,254,446**	**1,308,230**	**-**	**5,562,676**
Financial liabilities at fair value through profit and loss				
Derivatives held-for-trading	-	942,614	-	942,614
Derivatives used for hedging purposes	-	284,492	-	284,492
Total	**-**	**1,227,106**	**-**	**1,227,106**

31 December 2015	Level 1	Level 2	Level 3 (*)	Total
Financial assets at fair value through profit and loss	205,822	494,117	-	699,939
Debt instruments	205,822	-	-	205,822
Derivatives held-for-trading	-	494,117	-	494,117
Derivatives used for hedging purposes	-	58,309	-	58,309
Available-for-sale financial assets	4,024,292	18,864	75,043	4,118,199
Debt instruments	4,024,292	9,638	-	4,033,930
Available-for-sale equity securities (**)	-	9,226	75,043	84,269
Remeasurement adjustment on interest rate risk hedged portfolios	-	1,913	-	1,913
Total	**4,230,114**	**573,203**	**75,043**	**4,878,360**
Financial liabilities at fair value through profit and loss				
Derivatives held-for-trading	-	519,397	-	519,397
Derivatives used for hedging purposes	-	159,216	-	159,216
Total	**-**	**678,613**	**-**	**678,613**

(*) These amounts consist of the fair value of the equity instruments determined by using the probable sale price of these instruments. In 2016, these instruments are sold. VISA EU shares presented under Level 3 category as at 31 December 2015 has been sold to VISA Inc. and has been derecognized.

(**) TL11,856 (31 December 2015: TL12,425) carried at cost is not included in the table.

There is no transition between the levels in the current year and the previous year.

30. SUBSEQUENT EVENTS

As of 26 January 2017, bond issued by the Bank on 10 August 2016 with a nominal value of TL137,700, maturity of 169 days with the ISIN code “TRQTEBK11710” has expired and it has been disposed.