Public Disclosure Authorized

Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

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

28 April 2017

This report contains the "Independent Auditors' Report comprising 4 pages and; the "Consolidated Financial Statements and their explanatory notes" comprising 83 pages.

Türkiye Halk Bankası Anonim Şirketi and its subsidiaries

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Independent Auditors' Report

To the Board of Directors of Türkiye Halk Bankası Anonim Şirketi,

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Refer to Note 12 to the consolidated financial statements relating to the impairment of loans and advances to customers.

The key audit matter	*How the matter was addressed in our audit*
The appropriateness of loan loss provisions is a key area of judgment for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.	We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. For loan loss provisions calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For loan loss provisions calculated on a collective basis we tested, the underlying models including the model approval. We also tested the appropriateness and accuracy of the inputs to those models, such as recovery and cure rates, and where available, compared data and assumptions made to external benchmarks. Finally we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures for forbearance and cover values.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

  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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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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 auditors' 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.

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

Alper Güvenç
Partner

28 April 2017
Istanbul, Turkey

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Financial Position
As at 31 December 2016

(Currency-In thousands of Turkish Lira (“TL”))

	Notes	31 December 2016	31 December 2015
Assets			
Cash on hand	*8*	1.543.129	1.258.809
Balances with Central Bank	*9*	11.268.177	5.151.550
Reserve deposits at Central Bank	*9*	17.400.661	17.090.181
Due from banks	*10*	3.037.247	2.671.525
Financial assets at fair value through profit or loss		449.224	340.019
- Trading securities	*11*	*89.115*	*86.403*
- Derivative financial instruments	*27*	*360.109*	*253.616*
Loans and advances	*12*	158.898.373	126.643.840
Insurance premium receivables	*13*	391.236	299.481
Investment securities:		33.826.855	28.441.031
- Available-for-sale investment securities	*11*	*15.482.229*	*11.536.154*
- Held-to-maturity investment securities	*11*	*18.344.626*	*16.904.877*
Investment in equity-accounted investees	*14*	286.103	257.711
Finance lease receivables	*15*	2.144.498	2.123.482
Property and equipment	*16*	3.260.536	3.130.233
Intangible assets	*17*	115.548	103.006
Non-current assets held for sale	*18*	1.280	2.437
Investment property	*19*	864.116	485.594
Deferred tax assets	*25*	440.540	287.965
Other assets	*20*	2.726.076	1.978.468
Total assets		**236.653.599**	**190.265.332**
Liabilities			
Deposits from banks	*21*	22.860.211	14.690.850
Deposits from customers	*21*	127.529.857	107.807.711
Obligations under repurchase agreements	*22*	10.844.612	8.435.992
Loan and advances from banks	*23*	23.928.919	24.107.436
Interbank money market borrowings	*24*	8.177.524	19.965
Derivative financial instruments	*27*	224.593	175.673
Debt securities issued	*28*	12.744.316	8.826.436
Subordinated liabilities	*28*	-	47.144
Insurance contract liabilities	*13*	1.666.823	1.144.164
Provisions	*26*	1.252.756	1.199.491
Income tax payables	*25*	64.610	124.160
Deferred tax liability	*25*	288.974	71.264
Other liabilities	*26*	5.062.980	4.302.731
Total liabilities		**214.646.175**	**170.953.017**
Equity			
Share capital	*29*	2.578.184	2.578.184
Share premium		39.737	39.488
Reserves	*30*	2.987.862	2.841.063
Retained earnings	*30*	16.188.483	13.652.154
Total equity attributable to equity holders of the Bank		**21.794.266**	**19.110.889**
Non-controlling interest		213.158	201.426
Total equity		**22.007.424**	**19.312.315**
Total liabilities and equity		**236.653.599**	**190.265.332**

The notes on pages 7 to 83 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016
(Currency-In thousands of Turkish Lira (“TL”))

	Notes	**2016**	**2015**
Interest income:			
-Interest income on loans		14.307.861	11.317.212
-Interest income on securities		2.571.403	2.372.295
-Interest income on finance leases		158.434	139.735
-Interest income on deposits at banks		171.744	67.627
-Interest income on other money market placements		703	2.641
-Other interest income		153.062	73.202
		17.363.207	**13.972.712**
Interest expense:			
-Interest expense on deposits		(8.051.221)	(6.324.805)
-Interest expense on other money market deposits		(798.909)	(738.807)
-Interest expense on borrowings		(484.839)	(413.094)
-Interest expense on debt securities issued		(589.250)	(456.218)
-Other interest expense		(88.558)	(104.027)
		(10.012.777)	**(8.036.951)**
Net interest income		**7.350.430**	**5.935.761**
Fees and commission income	*35*	1.740.139	1.522.184
Fees and commission expenses	*35*	(502.036)	(428.250)
Net fee and commission income		**1.238.103**	**1.093.934**
Net trading income from securities		20.281	32.960
Net trading income / (loss) from derivative financial instruments		11.158	125.581
Foreign exchange gain / (losses), net		151.515	(399.329)
Net impairment losses on financial assets		(1.644.992)	(1.360.412)
Income from insurance operations		1.293.068	804.102
Cost of insurance operations		(1.170.476)	(663.287)
Dividend income		37.986	4.254
Other operating income	*33*	422.274	285.136
Other operating expenses	*34*	(4.000.048)	(3.620.118)
Operating profit		**3.709.299**	**2.238.582**
Share of profit of equity-accounted investees		17.309	10.481
Profit before income tax		**3.726.608**	**2.249.063**
Income tax expense	*25*	(708.350)	(461.638)
Profit for the year		**3.018.258**	**1.787.425**
Other comprehensive income			
Items that will be never classified to profit or loss:			
Remeasurement of employee termination benefits		17.765	(29.569)
Related tax		(3.553)	5.914
Items that are or may be reclassified subsequently to profit or loss:			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		(462.580)	(541.856)
Net amount transferred to profit or loss		(21.586)	(31.393)
Foreign currency translation differences		43.912	39.926
Revaluation differences of property and equipment		434.347	1.672.931
Related tax		(15.348)	92.949
Other comprehensive income for the year, net of tax		**(7.043)**	**1.208.902**
Total comprehensive income for the year		**3.011.215**	**2.996.327**

The notes on pages 7 to 83 are an integral part of these consolidated financial statements.

(Currency-In thousands of Turkish Lira ("TL"))

	Notes	**2016**	**2015**
Profit attributable to:			
Equity holders of the Bank		3.012.408	1.777.099
Non-controlling interest		5.850	10.326
Profit for the year		**3.018.258**	**1.787.425**
Total comprehensive income attributable to:			
Equity holders of the Bank		2.999.483	2.973.882
Non-controlling interest		11.732	22.445
Total comprehensive income for the year		**3.011.215**	**2.996.327**
Basic earnings per share (full TL per share)	*31*	**2,4099**	**1,4217**

The notes on pages 7 to 83 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

(Currency-In thousands of Turkish Lira ("TL"))

	Total equity attributable to equity holders of the Bank							
			Reserves					
	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2015	**2.578.184**	**39.009**	**191.055**	**1.323.727**	**12.215.657**	**16.347.632**	**178.981**	**16.526.613**
Total comprehensive income for the year								
Net profit of the period	--	--	--	--	**1.777.099**	**1.777.099**	**10.326**	**1.787.425**
Other comprehensive income, net of tax								
Remeasurement of employee termination benefits	--	--	--	--	(23.655)	(23.655)	--	**(23.655)**
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	--	--	(449.963)	--	--	(449.963)	1.056	**(448.907)**
Net amount transferred to profit or loss	--	--	(31.393)	--	--	(31.393)	--	**(31.393)**
Revaluation differences of property and equipment	--	--	--	1.672.931	--	1.672.931	--	**1.672.931**
Foreign currency translation differences	--	--	--	14.331	25.309	39.640	286	**39.926**
Total other comprehensive income	--	--	**(481.356)**	**1.687.262**	**1.654**	**1.207.560**	**1.342**	**1.208.902**
Total comprehensive income for the year	--	--	**(481.356)**	**1.687.262**	**1.778.753**	**2.984.659**	**11.668**	**2.996.327**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	--	--	--	120.201	(120.201)	--	--	--
Dividends to equity holders	--	--	--	--	(223.553)	(223.553)	--	**(223.553)**
Changes in ownership interests in subsidiaries								
Change in non-controlling interests without a change in control	--	479	--	174	1.498	2.151	10.777	**12.928**
Balances at 31 December 2015	**2.578.184**	**39.488**	**(290.301)**	**3.131.364**	**13.652.154**	**19.110.889**	**201.426**	**19.312.315**
Balances at 1 January 2016	**2.578.184**	**39.488**	**(290.301)**	**3.131.364**	**13.652.154**	**19.110.889**	**201.426**	**19.312.315**
Total comprehensive income for the year								
Net profit of the period	--	--	--	--	**3.012.408**	**3.012.408**	**5.850**	**3.018.258**
Other comprehensive income, net of tax								
Remeasurement of employee termination benefits	--	--	--	--	14.212	14.212	--	**14.212**
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	--	--	(412.211)	(65.764)	--	(477.975)	47	**(477.928)**
Net amount transferred to profit or loss	--	--	(21.586)	--	--	(21.586)	--	**(21.586)**
Revaluation differences of property and equipment	--	--	--	434.347	--	434.347	--	**434.347**
Foreign currency translation differences	--	--	--	43.768	--	43.768	144	**43.912**
Total other comprehensive income	--	--	**(433.797)**	**412.351**	**14.212**	**(7.234)**	**191**	**(7.043)**
Total comprehensive income for the year			**(433.797)**	**412.351**	**3.026.620**	**3.005.174**	**6.041**	**3.011.215**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	--	--	--	168.405	(253.476)	(85.071)	--	**(85.071)**
Dividends to equity holders	--	--	--	--	(238.603)	(238.603)	--	**(238.603)**
Changes in ownership interests in subsidiaries								
Change in non-controlling interests without a change in control	--	249	--	(160)	1.788	1.877	5.691	**7.568**
Balances at 31 December 2016	**2.578.184**	**39.737**	**(724.098)**	**3.711.960**	**16.188.483**	**21.794.266**	**213.158**	**22.007.424**

The notes on pages 7 to 83 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Cash Flows
For the year ended 31 December 2016
(Currency-In thousands of Turkish Lira ("TL"))

	Notes	2016	2015
Cash flows from operating activities			
Profit for the year		3.018.258	1.787.425
Adjustments for:			
Depreciation and amortisation	*34*	224.184	146.850
Net impairment loss on loans and advances	*12*	1.657.460	1.598.428
Net interest income		(7.350.430)	(5.935.761)
Dividend income		(37.986)	(4.254)
Provision for employee termination benefits	*34*	83.672	67.123
Impairment losses on property and equipment		9.032	1.714
Net gain on sale of property and equipment	*33*	(129.232)	(66.797)
Share of profit of equity-accounted investees		(17.309)	(10.481)
Income tax expense	*25*	708.350	461.638
		(1.834.001)	**(1.954.115)**
Change in financial assets at fair value through profit or loss		(3.080)	15.591
Change in due from banks		(26.657)	18.000
Change in loans and advances		(32.478.568)	(25.790.309)
Change in other assets		(3.414.582)	(6.258.529)
Change in deposits from banks		15.052.270	(2.351.756)
Change in deposits from customers		12.675.136	21.031.587
Change in loans and advances from banks		(554.361)	7.906.157
Change in other liabilities		11.057.581	597.383
Interest received		16.611.483	13.429.916
Dividends received		37.986	4.254
Interest paid		(9.495.583)	(7.729.275)
Income tax paid		(883.058)	(580.287)
Employee termination benefits paid		(49.769)	(34.963)
Net cash provided from / (used in) operating activities		**6.694.797**	**(1.696.346)**
Cash flows from investing activities			
Acquisitions of subsidiaries		(3.213)	(29.076)
Acquisitions of available-for-sale investment securities		(6.118.249)	(2.710.759)
Proceeds from sale of available-for-sale investment securities		3.102.821	911.568
Acquisitions of held to maturity investment securities		(4.254.198)	(2.388.371)
Proceeds from sale of held to maturity investment securities	*11*	2.712.189	3.604.368
Acquisition of property and equipment	*16*	(269.671)	(2.318.822)
Proceeds from the sale of property and equipment		51.558	2.950.770
Acquisition of intangible assets	*17*	2.608	(55.913)
Net cash provided from / (used in) investing activities		**(4.776.155)**	**(36.235)**
Cash flows from financing activities			
Proceeds from issue of debt securities		10.667.444	4.424.647
Repayment of debt securities		(7.097.144)	(1.750.000)
Dividends paid	*30*	(238.603)	(223.553)
Other			
Net cash provided from / (used in) financing activities		**3.331.697**	**2.451.094**
Net increase / (decrease) in cash and cash equivalents		5.250.339	**718.513**
Cash and cash equivalents at 1 January		8.855.902	7.290.931
Effect of change in currency rate fluctuations on cash held		1.424.356	846.458
Cash and cash equivalents at 31 December	*36*	**15.530.597**	**8.855.902**

The notes on pages 7 to 83 are an integral part of these consolidated financial statements.

Türkiye Halk Bankası Anonim Şirketi and its subsidiaries

Notes to the consolidated financial statements:

1. Activities of the Bank and the Group

Türkiye Halk Bankası AŞ (the "Bank") was incorporated in Turkey in 1933 as a state economic enterprise established under law no. 2284. As of 31 December 2016, the Bank operates 964 branches, including 959 domestic branches and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic Branches include 30 satellite branches. There is 3 representative office in Iran, England and Singapure. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consists of banking, securities, financial leasing, factoring services, brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Faktoring AŞ, Halkbank A.D., Beograd and Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ.

In 2000, the Turkish Parliament passed Statute 4603, pursuant to which state-owned banks were required to restructure its operations and prepare themselves to eventual privatization. According to the Decree number 2006/69, dated as 11 August 2006 issued by Privatization High Council, all outstanding shares of the Bank are transferred to the Privatization Administration and 99,9% of the Bank shares should be sold to general public.

The first phase of the privatization process of the Bank corresponding to 24,98% of the shares was completed in the first week of May 2007 and the Bank's shares have been traded on Istanbul Stock Exchange (Borsa İstanbul AŞ (BIST)) as of 10 May 2007.

The second phase of the privatization process of the Bank corresponding to 23,92% of the shares that were previously held by the Privatization Administration was completed on 21 November 2012 and after the second public offering and privatization, the 48,90% of the Bank shares have been traded on Istanbul Stock Exchange (Borsa İstanbul AŞ (BIST)).

In November 2004, the Bank merged with Pamukbank Türk Anonim Şirketi ("Pamukbank"), integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Halk Sigorta AŞ, a property, health and casualty insurance company, Halk Hayat ve Emeklilik AŞ, a life insurance company and Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ in 2010. Halk Gayrimenkul Yatırım Ortaklığı AŞ's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Its main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the real estate investment trusts, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates. 28% shares of Halk GYO started to be traded on Borsa İstanbul AŞ (BIST) at 22 February 2013.

Halk Finansal Kiralama AŞ ("Halk Leasing"), was an associate of the Bank with 47,75% of the shares and accounted according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group's equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which is a subsidiary of Turkish state bank that operates in Macedonia, through the merger as of 1 October 2012. As a result, the Group's equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78% and as at 31 December 2016, the Group's ownership rate is 99,03%. Halk Banka AD, Skopje is operating in the Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

1. Activities of the Bank and the Group (continued)

Halk Portföy Yönetimi AŞ ("Halk Portföy"), a subsidiary of the Bank established in 2011, was registered on 30 June 2011. Halk Portföy's main line of business is to provide portfolio and fund management services.

Halk Faktoring AŞ ("Halk Faktoring"), a subsidiary of the Bank established in 2012, was registered on 6 June 2012. Halk Faktoring's main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operations.

Halk Yatırım Menkul Değerler AŞ ("Halk Yatırım"), was set up in 1997 to carry out capital markets activities, to purchase and sell capital markets instruments, and to execute stock exchange transactions. The company became a subsidiary in early 2006 when Halkbank bought the shares of Türkiye Halk Bankası Personnel Provident Fund.

The Parent Bank obtained the control of Halkbank AD, Beograd by acquiring 76,76% of the shares and voting interests of the company as of 28 May 2015. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. On the date of 24 November 2015 Bank's share has increased into 82,47% by the increase of capital.

Bileşim Alternatif Dağıtım Kanalları AŞ ("Bileşim AŞ"), a subsidiary of the Bank established in 1998. As of 22 July 2013, the Bank purchased 76% shares of Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. which was the associate of the Bank, from Ziraat Group (the shares of T.C. Ziraat Bank A.Ş. was 61%, the shares of Ziraat Finansal Kiralama A.Ş. was 15%) and thus the company became the Bank's subsidiary. Bileşim AŞ's main line of business is to provide atm operations, call center services, merchant operations and printing office operations to domestic and international customers.

2. Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 28 April 2017.

3. Basis of preparation

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

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose, available-for-sale investment securities whose fair value can reliably be measured and buildings whose fair value can reliably be measured by an independent valuation company.

3.1. Use of judgement and estimates

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

3. Basis of preparation (continued)

3.1. Use of estimates and judgements (continued)

Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 4.8 – *financial assets and financial liabilities.*

Investments in equity securities were evaluated for impairment on the basis described in Note 4.8 – *financial assets and financial liabilities*.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Fair value

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

The Group's accounting policy on fair value measurements is discussed in Note 4.8 – *financial assets and financial liabilities*.

The Group measures fair values using the fair value hierarchy which is disclosed in Note 5 – *financial risk management*.

Financial asset and liability classification

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

- In classifying financial assets or liabilities as 'trading', the Group has determined that it meets the description of trading assets and liabilities set out in Note 4.10.

- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 4.12.

3.2. Functional and presentation currency

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The functional currency of the Bank's foreign associates is the local currency. Until 31 December 2005, 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 reporting date and the corresponding figures for previous periods be restated in the same terms.

4. Significant accounting policies

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

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

4.1. Basis of consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Parent Bank and the subsidiaries.

Subsidiaries are the entities controlled by the Parent Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Parent Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Companies where the Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

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

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

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

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

Subsidiaries (continued)

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

	Place of incorporation	Direct ownership		Indirect ownership	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Halk Sigorta AŞ	Istanbul	89,18%	89,18%	93,59%	93,59%
Halk Hayat ve Emeklilik AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99,96%	99,96%	99,96%	99,96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	79,33%	79,03%	79,36%	79,06%
Halk Finansal Kiralama AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%
Halk Banka AD, Skopje	Skopje	99,03%	98,78%	99,03%	98,78%
Halk Portföy Yönetimi AŞ	Istanbul	75,00%	75,00%	99,99%	99,99%
Halk Faktoring AŞ	Istanbul	97,50%	97,50%	99,99%	99,99%
Halk Banka A.D. Beograd	Beograd	82,47%	82,47%	82,47%	82,47%
Bileşim Alternatif Dağıtım Kanalları AŞ	Istanbul	100,00%	100,00%	100,00%	100,00%

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
  if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.1 Basis of consolidation (continued)

Investments in associates (equity-accounted investees) (continued)

The equity-accounted associates of the Group as of 31 December 2016 and 31 December 2015 are as follows:

	Place of incorporation	Shareholding interest 31 December 2016	31 December 2015
Demir-Halk Bank NV	Rotterdam	30,00%	30,00%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47%	31,47%
Türk P ve I Sigorta AŞ	İstanbul	16,67%	16,67%

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

4.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The Group started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank AD, Beograd, Demirhalkbank NV and Halkbank AD, Skobje are foreign investments that are recognized under fair value accounting as hedged item, in compliance with "IAS 39 Financial Instruments: Recognition and Measurement". Accordingly, the effective portion of the foreign exchange differences is recorded under equity in the current period.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(Currency-In thousands of Turkish Lira ("TL"))

4. Significant accounting policies (continued)

4.2 Foreign currency (continued)

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

As at 31 December 2016 and 31 December 2015, foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD") and EUR. The TL/USD and TL/EUR exchange rates as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Period end	**Average**	**Period end**	**Average**
TL / USD	3,5100	3,4766	2,9000	2,6908
TL / EUR	3,6974	3,6637	3,1551	2,9832

4.3 Interest

Interest income and expense are recognised in the profit or loss using the effective interest method except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the consolidated statement of income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

4.4 Fees and commission

Commissions received from financial assets are recognised on an effective rate basis over the contractual period and unearned part is presented in other liabilities.

Commissions given for financial liabilities are recognised on a straight-line basis over the contractual period and prepaid part is presented in other assets.

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

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

4.5 Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

4. Significant accounting policies (continued)

4.6 Dividends

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

4.7 Income tax expense

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

4.8 Financial assets and financial liabilities

Recognition

The Group initially recognises loans and advances, deposits, obligations under repurchase agreements, loans and advances from banks and interbank money market borrowings on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date on which the Group commits to purchase or sell the asset. 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.

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when its contractual obligations are discharged or cancelled or expired.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Offsetting

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

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

Amortised cost measurement

Amortised 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 amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value measurement

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

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

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

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

In determining whether an impairment loss should be recorded profit or loss, the Group makes judgements 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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: (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.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

Assets carried at amortised cost (continued)

All loans except leasing receivables 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 amortised cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, 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 realised 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 recognised in profit or loss.

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

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Group of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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 profit or loss.

Assets carried at fair value

Available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through statement of profit or loss.

Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

4. Significant accounting policies (continued)

4.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances held with central banks and highly liquid financial original maturities of less than three months, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

4.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

4.11 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. 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 amortised cost using the effective interest method less any impairment in value. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

4.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

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. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. There has been no tainting in the held-to-maturity portfolio during 2016 and 2015.

Held to maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment in value.

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 amortised cost. Any previous gain or losses on those assets that have been recognised in equity are amortised over the remaining life of the held-to-maturity investments using the effective interest method.

4. Significant accounting policies (continued)

4.12 Investment securities (continued)

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 as another category of financial assets. After initial recognition, available for sale financial assets are measured at fair value. Quoted equity securities and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Gains or losses on re-measurement to fair value are recognised as a separate component of equity until the instrument is derecognised, or until the instrument is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss, however interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

4.13 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

4.14 Property and equipment

Recognition and measurement

Items of property, plant and equipment except for lands and buildings which are measured at fair value, are measured at cost less accumulated depreciation and any accumulated impairment losses. Beginning from the second quarter of 2015, the Group, has changed its accounting policy for lands and buildings from historical cost method to revaluation method for the lands and buildings. Buildings are stated at fair value as of revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within the other operating income or other operating expenses in profit or loss.

The carrying values of property 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 recognised in profit or loss.

(Currency-In thousands of Turkish Lira (“TL”))

4. Significant accounting policies (continued)

4.14 Property and equipment (continued)

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

	Useful life
Buildings	50 years
Other movable tangible assets	3 – 25 years
Leasehold improvements	4 – 5 years
Safe-deposit boxes	50 years

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

Derecognition

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

4.15 Investment property

Properties held for long term rental yields or value increase or both, rather than administrative purposes or for the sale in the ordinary course of business are classified as “Investment property” which are measured at fair value. Beginning from the third quarter of 2015, accounting policy has changed to fair value method in accordance with “IAS 40 Investment Property”. In subsequent periods, profit or loss due to the revaluation of fair value of investment property are accounted for under current period’s profit or loss. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of an item) is recognized in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

4.16 Intangible assets

Intangible assets acquired

Intangible assets acquired separately before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated amortisation and impairment losses, and items of intangible assets acquired after 1 January 2006 are carried at acquisition cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised at between 3 and 5 years based on their economic lives.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

4. Significant accounting policies (continued)

4.17 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

4.18 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that one not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

4.19 Leases

The Group as the lessee

Operating leases

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

Finance leases

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

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

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

4. Significant accounting policies (continued)

4.19 Leases (continued)

The Group as the lessor

<u>Operating leases</u>

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

<u>Finance leases</u>

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

4.20 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either equity instruments or other financial liabilities.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings and deposits are the Group's sources of debt funding.

Borrowings and deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.21 Provisions

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

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

4. Significant accounting policies (continued)

4.22 Employee benefits

Defined benefit plans

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits 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 other comprehensive income.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group 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 which are disclosed in Note 26 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2016 is TL 421.497 (31 December 2015: TL 409.923).

Defined contribution plans

The foundations, Türkiye Halk Bankası AŞ Employee Pension Fund and T.C. Ziraat Bankası and T. Halk Bankası Employee Pension Fund, that the employees of the Bank are a member, were founded in accordance with the provisional article 20 of the Social Insurance Act ("SIA") No: 506. Provisional article 23 of the Banking Act No: 5411 requires the Bank's pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution ("SII") within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers' decision dated 30 November 2006 and numbered 2006/11345. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Grand National Assembly of Turkey ("GNA") started to work on establishing new legal regulations; and after, the "Law Regarding the Amendments to the Social Security and General Health Insurance Act and Certain Laws and Decree Laws" numbered 5754 which was published on the Official Gazette dated 8 May 2008 and numbered 26870 approved at the General Assembly of the GNA and came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three-year transfer period can be prolonged for maximum 2 years by the Council of Ministers' decision. Related transfer period has been prolonged for 2 years by the Council of Ministers' decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years.

4. Significant accounting policies (continued)

4.22 Employee benefits (continued)

Defined contribution plans (continued)

The members of the plan receive pension benefits on retirement, dependent on several factors such as age, years of service and compensation. The Group recognized the liability in the statement of financial position in respect to these plans equal to the present value of the defined benefit obligation at the balance sheet less the fair value of the assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the expected interest rates for Turkish Lira. The methodology included the calculation of the defined benefit obligation using 9,8% and inclusion of the present value of future employee contributions in plan assets. Based on the results of the actuarial report prepared as of 31 December 2016 and 31 December 2015, no technical deficit has been reported.

Short-term benefits

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

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

4.23 Insurance businesses

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognised as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under income from insurance operations in the accompanying consolidated statement of profit or loss.

Premium received for an investment contract, is not recognised as revenue. Premiums for such contracts are recognised directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under insurance contract liabilities in the accompanying consolidated statement of financial position.

4. Significant accounting policies (continued)

4.23 Insurance businesses (continued)

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. In the accompanying consolidated financial statements, reserve for outstanding claims is presented by netting off amounts recoverable from reinsurers under insurance contract liabilities. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is presented under insurance contract liabilities in the accompanying consolidated statement of financial position. Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions.

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies.

Long term insurance contracts are presented under insurance contract liabilities in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognised directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortised on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

4. Significant accounting policies (continued)

4.23 Insurance businesses (continued)

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

Income generated from pension business: Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

4.24 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of income is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank.

4.25 Events after the reporting period

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

4.26 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4. Significant accounting policies (continued)

4.27 New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group. Given the nature of the Group's operations, this standard is expected to have an impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in a change in the overall level of impairment allowances.

IFRS 15 Revenue from Contracts with customers

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

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

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

4. Significant accounting policies (continued)

4.27 New standards and interpretations not yet adopted

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

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

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

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

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

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

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 “First Time Adoption of International Financial Reporting Standards”

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

IFRS 12 “Disclosure of Interests in Other Entities”

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

5. 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 this matter reflecting the disciplined and prudent risk management culture of the Group. The Bank Risk Management supervises the risk management process of the Group.

The mission of Group Risk Management function is 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.

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

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.

5. Financial risk management (continued)

Credit risk

The Group manages its credit risk by limiting its risk. Under the risk management the Bank rates each of its loans given to customers (legal or real) and requires additional guarantees from its customers with high risk ratings, or does not provide loans to such customers, or applies strategies in order to decrease the level risk of such loan. The Group's credit risk is focused in Turkey where its main operations take place. During the loan application process, limits for product and customers are taken into consideration and these limits are controlled regularly. The related loan units within the Bank are responsible for defining limits for sectors and geographical regions.

The risks and limits attributable to banks and transactions with correspondent banks are followed up on a daily basis. Off balance sheet risk concentration on individual customers and banks are also followed up daily in cooperation with the Treasury Department.

Those loans which are renewed or restructured are traced not only according to their relevant regulations, but are also traced by the risk management process where they are re-considered for their credit group and weight. With these methods, new precautions are taken and loans that have longer maturities have greater credit risks than the short-term loans.

The credibility of the debtors of the Bank is assessed periodically in accordance with the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Financial statements obtained for loans to be granted are audited as required by the related legislation. Loan limits are updated by the initiative of the Bank's Credit Committee and top management, as deemed necessary and in accordance with the changes in economic conditions. The Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of suretyships, mortgages on property, cash blockages and cheques.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans and recorded in the follow up accounts according to their collaterals.

The percentage of the top 100 cash loan clients of the Bank to the total loan portfolio is 24,52% (31 December 2015: 25,20%).

The percentage of the top 100 non-cash loan clients of the Bank to the total non-cash loan portfolio is 46,43% (31 December 2015: 46,64%).

The percentage of the total cash and non-cash loan balances of the top 100 clients to the total of assets and off-balance sheet items is 17,58% (31 December 2015: 18,31%).

Derivatives:

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

5. Financial risk management (continued)

Credit risk (continued)

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(Currency-In thousands of Turkish Lira ("TL"))

5. **Financial risk management** (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows:

	31 December 2016	
	Cash	**Non-cash**
Agricultural	737.384	65.096
Farming and raising livestock	*637.680*	*58.619*
Forestry	*4.171*	*199*
Fishing	*95.533*	*6.278*
Manufacturing	42.719.281	19.023.762
Mining	*1.623.897*	*206.722*
Production	*34.422.154*	*15.023.632*
Electric, gas and water	*6.673.230*	*3.793.408*
Construction	5.212.363	13.132.718
Services	55.234.527	15.175.175
Wholesale and retail trade	*25.130.879*	*7.201.479*
Hotel, food and beverage services	*7.912.879*	*261.998*
Transportation and telecommunication	*13.514.295*	*691.611*
Financial institutions	*2.715.073*	*3.758.185*
Real estate and renting services	*3.010.773*	*3.023.650*
Self-employment services	*807.281*	*18.151*
Education services	*980.348*	*71.969*
Health and social services	*1.162.999*	*148.132*
Other	55.289.008	480.968
Total loans	**159.192.563**	**47.877.719**
Non-performing loans	5.320.512	--
Less: allowance for losses on loans and advances	(5.614.702)	--
Total	**158.898.373**	**47.877.719**

(*) As of 31 December 2016, allowance for losses on non-cash loans are TL 139.279.

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Credit risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows: (continued)

	31 December 2015	
	Cash	**Non-cash**
Agricultural	666.934	34.272
Farming and raising livestock	*595.967*	*30.172*
Forestry	*3.461*	*152*
Fishing	*67.506*	*3.948*
Manufacturing	34.253.964	16.360.420
Mining	*450.180*	*175.334*
Production	*29.135.374*	*12.857.564*
Electric, gas and water	*4.668.410*	*3.327.522*
Construction	3.650.578	9.896.118
Services	44.752.047	13.517.938
Wholesale and retail trade	*21.645.903*	*6.419.843*
Hotel, food and beverage services	*5.318.219*	*142.359*
Transportation and telecommunication	*9.761.917*	*478.796*
Financial Institutions	*2.694.181*	*2.896.753*
Real estate and renting services	*2.927.490*	*3.405.988*
Self-employment services	*708.029*	*10.628*
Education services	*667.935*	*71.790*
Health and social services	*1.028.373*	*91.781*
Other	43.366.094	228.478
Total loans	**126.689.617**	**40.037.226**
Non-performing loans	4.189.536	--
Less: allowance for losses on loans and advances	(4.235.313)	--
Total	**126.643.840**	**40.037.226**

[(*)] As of 31 December 2015, allowance for losses on non-cash loans are TL 93.877.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Credit risk types according to sectors and geographical concentration:

Credit risk of the Group as of 31 December 2016 and 31 December 2015 is calculated and credit risk types according to sectors and geographical concentration are presented in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 29111 dated 6 September 2014 which is complaint to Basel III.

Sectoral breakdown of risk weighted assets is as follows:

	31 December 2016	**31 December 2015**
Agricultural	954.445	841.874
Farming and raising livestock	*769.653*	*765.875*
Forestry	*80.054*	*5.256*
Fishing	*104.738*	*70.743*
Manufacturing	58.082.221	45.134.639
Mining	*1.573.801*	*572.236*
Production	*47.834.950*	*38.177.674*
Electric, gas and water	*8.673.470*	*6.384.729*
Construction	12.843.361	8.933.701
Services	72.601.139	100.977.148
Wholesale and retail trade	*30.747.778*	*26.250.739*
Hotel, food and beverage services	*8.343.227*	*5.434.290*
Transportation and telecommunication	*14.146.495*	*10.169.015*
Financial institutions	*12.546.255*	*53.407.044*
Real estate and renting services	*3.418.541*	*3.171.400*
Self-employment services	*854.103*	*737.596*
Education services	*1.024.768*	*714.425*
Health and social services	*1.519.972*	*1.092.639*
Other	127.802.070	56.795.111
Total risk weighted assets	**272.283.236**	**212.682.473**

Information according to geographical concentration:

	31 December 2016	**31 December 2015**
Domestic	269.569.699	207.375.180
EU Countries	1.066.030	1.107.362
OECD Countries(*)	41.884	1.211.902
USA, Canada	230.788	744.548
Other countries	1.374.812	891.824
Investment and associates, subsidiaries and joint ventures	--	1.351.628
Off-shore banking regions	23	29
Total risk weighted assets	**272.283.236**	**212.682.473**

(*) OECD Countries other than the EU Countries, USA and Canada.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets:

Overdue and individually impaired assets are not available in due from banks, financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities as of 31 December 2016 and 31 December 2015.

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

31 December 2016	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and advances				
Corporate loans	13.048	6.693	3.767	23.508
SME loans	164.903	62.513	44.154	271.570
Consumer loans	20.879	8.576	5.301	34.756
Credit cards	98.863	20.162	8.270	127.295
Total	**297.693**	**97.944**	**61.492**	**457.129**

31 December 2015	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and advances				
Corporate loans	60.244	6.553	4.388	71.185
SME loans	185.466	41.183	32.274	258.923
Consumer loans	27.899	9.775	6.242	43.916
Other	117.687	19.847	11.814	149.348
Total	**391.296**	**77.358**	**54.718**	**523.372**

As of 31 December 2016, the fair value of collaterals held against the past due but not yet impaired loans amounts to TL 4.591.812. The net value and type of the collaterals is as follows:

Collateral type [1]	31 December 2016	31 December 2015
Real estate mortgage	3.286.676	1.643.306
Suretyships	881.394	1.307.826
Salary pledge, vehicle pledge and pledge of commercial undertaking	107.555	115.919
Cheque /bills	38.123	61.345
Financial collaterals (Cash, securities pledge, etc.)	2.418	566
Other	275.646	331.325
Total	**4.591.812**	**3.460.287**

(1) The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above. Income accruals are not included in the table.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures has been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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

	31 December 2016	**31 December 2015**
Loans and advances [(1)] [(2)]		
Corporate loans	33.834	73.375
SME loans	7.796	12.054
Consumer loans	10.148	13.824
Other	--	--
Total	**51.778**	**99.253**

(1) Accruals are not included to the table above.

(2) Presents loans accounted under in restructured or rescheduled loan accounts.

5. Financial risk management (continued)

Credit risk (continued)

Rating system

Credit risk limits of customers are determined depending on the financial situation and loan requirements of the borrowers, in strict compliance with the relevant banking legislation, within the framework of loan authorization limits of Branches, Regional Offices, Loan Divisions, and the Deputy Chief Executives responsible for loans, the CEO, the Credit Committee and the Board of Directors. These limits may be changed as may be deemed necessary by the Bank. Moreover, all corporate and commercial loans’ credit limits are revised periodically, provided that each period does not exceed a year. Furthermore, the borrowers and borrower groups forming a large proportion of the overall loan portfolio are subject to risk limits in order to provide further minimization of potential risk.

The loans whose borrowers’ capacity to fulfill their obligations is very good, are defined as “Strong” (Risk group for entrepreneur loans: 1 and 2, Risk group for corporate and commercial loans: AAA, AA and A), whose borrowers’ capacity to fulfill its obligations in due time is reasonable, are defined as “Standard” (Risk group for entrepreneur loans: 3, 4 and 5, Risk group for corporate and commercial loans: BBB, BB, B and CCC) and whose borrowers’ capacity to fulfill their obligations is poor, are defined as “Below Standard” (Risk group for entrepreneur loans: 6 and 7, Risk group for corporate and commercial loans: CC and C). The percentage of the portfolio according to the rating/scoring results is as follows:

	2016 (%)	**2015 (%)**
Strong	22	20
Standard	65	66
Below standard	13	14

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Risk grade (1-4)	Risk Group	Definition of risk group	Risk grade (%)
1,00 - 1,40	AAA	The firm is an extremely positive firm with its financial and non-financial criteria and it can pursue its high credibility in the long run.	100 -86
1,41 - 1,80	AA	The firm is a positive firm with its financial and non-financial criteria and it can pursue its high credibility in the long run.	85 -73
1,81 - 2,00	A	The firm that has performed its optimization and has a high credibility in the short run and is a credible firm in the medium run.	72 - 67
2,01 - 2,20	BBB	The firm is a credible firm despite the fact that it cannot perform the optimization certain aspects of its financial and non-financial criteria.	66 - 60
2,21 - 2,40	BB	The firm cannot retain optimization in the major parts of its financials and non-financial criteria. It has speculative attributes but it's a credible firm in the short run.	59 - 53
2,41 - 2,60	B	Some of the financial and non-financial criteria are negative. It carries highly speculative attributes. In the short run it is a credible firm dependent on the positive conjecture.	52 - 47
2,61 - 2,80	CCC	The major part of its financial and non-financial criteria is negative and the firm is having difficulties in meetings its commitments. But it has guaranteed short run credibility dependent on the positive conjecture.	46 - 40
2,81 - 3,20	CC	The firm force acceptable risk limits when it's financial and non-financial criteria considered together, and have poor credibility.	39 - 27
3,21 - 3,60	C	The firm has no credibility when its financial and non-financial criteria considered together	26 - 13
3,61 - 4,00	D	The firm has no credibility under any condition.	12 - 0

Entrepreneur Loans Decision Module ("ELDM") is the rating module which is used for assessment of loan applications of companies which are classified by the Bank as a small and medium sized enterprises (SME) Customers within the SME in ELDM are evaluated by both qualitative and quantitative characteristics of firm, the size of endorsement and requested amount of loan before bank creates score card forms for each customers. Score card which categorize firms according to their risk, includes 1 to 7 rating group and 1 has the lowest risk. Guarantees for companies that can be assessed by ELDM, converted into cash during the time it takes to prevent probable loss of value and the conversion process is divided into two main groups according to the criteria. The conversion of cash collateral to compensate for any losses in a margin, "Liquid Collateral Value" is referred to as the facility where the customer the amount of collateral to be determined by risk group, and the collateral value of the liquid.

Offsetting financial assets and financial liabilities

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

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

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

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

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

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

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	**Gross amounts of recognized financial assets**	**Gross amounts of recognized financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
31 December 2016	Derivatives - trading assets	360.109	--	360.109	--	14.134	345.975
31 December 2015	Derivatives - trading assets	253.616	--	253.616	--	13.606	240.010

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	**Gross amounts of recognized financial assets**	**Gross amounts of recognized financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral pledged**	**Net amount**
31 December 2016	Derivatives - trading liabilities	224.593	--	224.593	--	(338.356)	(113.763)
31 December 2015	Derivatives - trading liabilities	175.673	--	175.673	--	(106.416)	69.257

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Liquidity risk

Liquidity risk occurs when there is not sufficient amount of cash or cash flows to meet the cash outflow needs completely and on time. Liquidity risk may also occur when the market penetration is not enough and when the open positions cannot be closed timely at competitive prices due to barriers and break-ups at the markets.

The Group uses domestic and foreign markets for its liquidity needs. Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (CBRT, ISE, Interbank money market, Settlement and Custody Bank and other markets). The Group has a lower ratio of the deposits compared to other banks with similar-sized positions; this indicates that larger loans can be obtained from the markets when needed. The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group’s fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investment securities and available for sale investment securities.

Analysis of non-derivative financial liabilities by remaining contractual maturities:

31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	114.023.770	25.757.529	10.529.290	614.505	11.011	150.936.105	150.390.068
Obligations under repurchase agreements	16.660.819	1.479.146	--	--	--	18.139.965	10.844.612
Loans and advances from banks	1.981.170	2.232.783	11.055.802	5.378.348	3.844.917	24.493.020	23.928.919
Interbank money market borrowings	--	8.177.524	--	--	--	8.177.524	8.177.524
Debt securities issued	333.042	1.090.794	3.801.556	8.920.337	--	14.145.729	12.744.316
Total	**132.998.801**	**38.737.776**	**25.386.648**	**14.913.190**	**3.855.928**	**215.892.343**	**206.085.439**

31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	85.549.835	29.814.711	7.292.681	531.220	7.839	123.196.286	122.498.561
Obligations under repurchase agreements	7.832.684	634.574	--	--	--	8.467.258	8.435.992
Loans and advances from banks	1.382.833	2.794.689	11.298.073	6.484.450	2.699.457	24.659.502	24.107.436
Interbank money market borrowings	--	19.965	--	--	--	19.965	19.965
Debt securities issued	53.016	723.544	1.052.216	6.630.355	1.479.029	9.938.160	8.826.436
Total	**94.818.368**	**33.987.483**	**19.642.970**	**13.646.025**	**4.186.325**	**166.281.171**	**163.888.390**

(Currency-In thousands of Turkish Lira ("TL"))

5. **Financial risk management** (continued)

Liquidity risk (continued)

Analysis of the Group's derivative financial instruments according to their remaining maturities:

31 December 2016	**Up to one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Forwards contracts – buy	1.118.830	2.504.618	875.467	232.448	--	4.731.363
Forward contracts – sell	1.118.179	467.553	874.715	230.950	--	2.691.397
Swaps – buy	1.775.843	264.926	159.192	656.768	--	2.856.729
Swaps – sell	1.781.941	263.813	158.953	560.998	--	2.765.705
Credit default swap – buy	--	--	--	--	--	--
Credit default swap – sell	--	--	--	--	--	--
Forward precious metal – buy	--	59.714	--	--	--	59.714
Forward precious metal – sell	--	2.121.975	--	--	--	2.121.975
Money buy options	307.574	32.550	--	--	--	340.124
Money sell options	307.584	32.545	--	--	--	340.129
Interest rate swap-buy	--	--	--	--	4.872.265	4.872.265
Interest rate swap-sell	--	--	--	--	4.872.265	4.872.265
Total	**6.409.951**	**5.747.694**	**2.068.327**	**1.681.164**	**9.744.530**	**25.651.666**

31 December 2015	**Up to one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Forwards contracts – buy	726.221	2.206.989	905.864	532.124	--	4.371.198
Forward contracts – sell	727.658	446.265	905.270	529.626	--	2.608.819
Swaps – buy	3.381.020	491.953	106.570	438.820	--	4.418.363
Swaps – sell	3.404.572	483.630	121.016	405.893	--	4.415.111
Credit default swap – buy	--	--	--	--	--	--
Credit default swap – sell	--	--	--	--	--	--
Forward precious metal – buy	--	15.278	--	--	--	15.278
Forward precious metal – sell	--	1.734.898	--	--	--	1.734.898
Money buy options	86.586	61.398	31.650	--	--	179.634
Money sell options	86.790	61.184	31.650	--	--	179.624
Interest rate swap-buy	--	--	--	--	3.790.180	3.790.180
Interest rate swap-sell	--	--	--	--	3.790.180	3.790.180
Total	**8.412.847**	**5.501.595**	**2.102.020**	**1.906.463**	**7.580.360**	**25.503.285**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position:

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
31 December 2016								
Assets								
Cash on hand	1.543.129	--	--	--	--	--	--	1.543.129
Balances with and reserve deposits at Central Bank	3.386.645	25.176.361	--	50.714	--	--	55.118	28.668.838
Due from banks	1.018.395	1.858.032	134.163	12.343	--	--	14.314	3.037.247
Financial assets at fair value through profit or loss	2.751	172.808	70.385	170.324	29.069	792	3.095	449.224
Loans and advances(1)	2.485.967	11.694.182	10.466.532	48.738.850	66.096.047	19.710.985	--	159.192.563
Investments securities	--	882.001	1.695.180	2.805.678	11.078.101	17.304.673	61.222	33.826.855
Other assets	2.488.847	56.917	281.685	673.459	1.413.677	310.387	4.710.771	9.935.743
Total assets	**10.925.734**	**39.840.301**	**12.647.945**	**52.451.368**	**78.616.894**	**37.326.837**	**4.844.520**	**236.653.599**
Liabilities and equity								
Deposits from banks	7.867.130	12.234.408	2.374.878	383.795	--	--	--	22.860.211
Deposits from customers	21.570.217	72.711.721	23.202.394	9.445.077	589.593	10.855	--	127.529.857
Obligations under repurchase agreements	--	8.475.046	1.478.502	891.064	--	--	--	10.844.612
Loans and advances from banks	53	1.956.010	2.126.774	10.921.602	5.214.856	3.709.624	--	23.928.919
Interbank money market borrowings	--	--	8.177.524	--	--	--	--	8.177.524
Debt securities issued	--	323.378	1.052.183	3.493.383	7.875.372	--	--	12.744.316
Other liabilities(2)	505.203	3.099.970	127.192	1.998.219	1.240.359	1.802.951	21.794.266	30.568.160
Total liabilities and equity	**29.942.603**	**98.800.533**	**38.539.447**	**27.133.140**	**14.920.180**	**5.523.430**	**21.794.266**	**236.653.599**
Liquidity gap	**(19.016.869)**	**(58.960.232)**	**(25.891.502)**	**25.318.228**	**63.696.714**	**31.803.407**	**(16.949.746)**	**--**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders' equity is presented in the "undistributed" column.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position (continued):

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
31 December 2015								
Assets								
Cash on hand	1.258.809	--	--	--	--	--	--	1.258.809
Balances with and reserve deposits at Central Bank	5.183.351	4.722.218	7.400.316	4.763.830	120.582	269	51.165	22.241.731
Due from banks	1.789.615	860.701	633	-	--	475	20.101	2.671.525
Financial assets at fair value through profit or loss	9.094	18.535	97.862	162.255	48.953	2	3.318	340.019
Loans and advances [1]	1.948.654	7.150.008	9.465.212	39.613.982	54.228.091	14.279.908	3.762	126.689.617
Investments securities	--	903.649	1.091.420	2.208.032	8.198.166	15.921.821	117.943	28.441.031
Other assets	2.122.150	56.424	221.789	594.599	1.492.565	182.439	3.952.634	8.622.600
Total assets	**12.311.673**	**13.711.535**	**18.277.232**	**47.342.698**	**64.088.357**	**30.384.914**	**4.148.923**	**190.265.332**
Liabilities and equity								
Deposits from banks	3.328.873	8.427.813	2.409.126	525.038	--	--	--	14.690.850
Deposits from customers	17.599.960	55.999.213	27.097.314	6.591.511	511.874	7.839	--	107.807.711
Obligations under repurchase agreements	--	7.823.894	612.098	--	--	--	--	8.435.992
Loan and advances from banks	37	1.381.321	2.778.277	11.053.318	6.292.810	2.601.420	253	24.107.436
Interbank money market borrowings	--	--	19.965	--	--	--	--	19.965
Debt securities issued	--	47.656	693.676	858.861	5.781.652	1.444.591	--	8.826.436
Other liabilities [2]	2.337.924	1.368.900	405.179	1.247.630	1.302.764	603.656	19.110.889	26.376.942
Total liabilities and equity	**23.266.794**	**75.048.797**	**34.015.635**	**20.276.358**	**13.889.100**	**4.657.506**	**19.111.142**	**190.265.332**
Liquidity gap	**(10.955.121)**	**(61.337.262)**	**(15.738.403)**	**27.066.340**	**50.199.257**	**25.727.408**	**(14.962.219)**	**--**

[1] Non performing loans (net) are presented in other assets.

[2] Shareholders' equity is presented in the "undistributed" column.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Liquidity risk (continued)

Net liquidity gap

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Market risk

In accordance with the Group's risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of "Regulation on Measurement and Evaluation of Capital Adequacy of the Banks" published in Official Gazette numbered 29111 on 6 September 2014.

The Bank's Board of Directors set the risk limits by taking into account the Group's main risk factors and those limits are periodically revised in accordance with the market conditions and the Group's strategies. Furthermore, the Board of Directors ensure that, the necessary measures to be taken by risk management department and all other executives in respect of defining, measuring, monitoring and managing the risks exposed by the Group. The Value at Risk ("VaR") based limits that are determined by the Board of Directors and the denominated interest rate risk of the Group is limited to certain percentage of the shareholders' equity.

In accordance with "Regulation on Measurement and Evaluation of Capital Adequacy of the Banks", the Group's possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method.

The Value at Risk (VaR) that is calculated by using internal model methods besides standard method is validated by scenario analysis and stress tests. The VaR is calculated daily by using historical simulation and parametric approach and the results are reported the executives of the Bank.

The Group's average market risk calculated as of the end of months in the related periods is as follows:

	31 December 2016			**31 December 2015**		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest rate risk	345.492	405.698	76.003	303.179	353.127	228.555
Share risk	18.128	26.456	11.998	11.557	47.312	4.790
Currency risk	39.465	66.239	25.500	46.166	159.123	17.177
Commodity risk	-	-	-	-	-	-
Settlement risk	-	-	-	-	-	-
Options risk	2.747	5.036	462	2.539	2.359	2.139
Counterparty credit risk	35.351	52.092	20.391	16.848	20.256	11.646
Amount subject to total risk	**405.831**	**503.429**	**113.963**	**380.289**	**582.289**	**264.307**

Currency risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account. Net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Currency risk (continued)

The Group’s exposure to foreign currency risk is limited. However, possible foreign currency risks are calculated in foreign currency risk table in the frame of the standard method weekly and monthly as to follow up the foreign currency risk periodically. In rare circumstances, when deemed necessary, foreign currency swap transactions are made with the banks.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

The following table details the Group’s sensitivity to a 10% increase and decrease in the TL against USD, EUR and other foreign currencies. 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	Effect on profit / loss	
		2016	2015
USD	10% increase	8.980	2.262
EUR	10% increase	30.100	22.917
Other	10% increase	26.657	25.362

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

	EUR	USD	Other FC	Total
31 December 2016				
Assets				
Cash on hand	160.639	286.967	181.245	628.851
Balances with Central Bank	1.848.902	6.855.660	--	8.704.562
Reserve deposits at Central Bank	4.811.638	8.891.589	3.640.938	17.344.165
Due from banks	414.994	800.901	386.429	1.602.324
Financial assets at fair value through profit or loss	91.242	138.476	2.489	232.207
Loans and advances	25.426.776	31.447.815	1.194.940	58.069.531
Investment securities	839.904	5.773.053	421.872	7.034.829
Investment in equity- accounted investees	270.028	--	--	270.028
Property and equipment	--	--	74.533	74.533
Other assets	1.389.608	1.348.417	47.243	2.785.268
Total assets	**35.253.731**	**55.542.878**	**5.949.689**	**96.746.298**
Liabilities				
Deposits from banks	8.454.425	3.160.761	1.461.712	13.076.898
Deposits from customers	17.324.616	30.582.332	2.865.858	50.772.806
Obligations under repurchase agreements	--	1.373.871	--	1.373.871
Loan and advances from banks	9.166.425	11.216.600	34.322	20.417.347
Debt securities issued	--	10.684.708	--	10.684.708
Other liabilities	322.787	360.704	181.169	864.660
Total liabilities	**35.268.253**	**57.378.976**	**4.543.061**	**97.190.290**
Net on balance sheet position	**(14.522)**	**(1.836.098)**	**1.406.628**	**(443.992)**
Net off balance sheet position	**(285.828)**	**1.925.895**	**(1.140.708)**	**499.359**
Derivative financial assets	1.387.874	4.185.717	1.571.243	7.144.834
Derivative financial liabilities	1.673.702	2.259.822	2.711.951	6.645.475
Non-cash loans [1]	8.827.121	16.441.447	1.609.613	26.878.181

[1] Non-cash loans are not included in the off-balance sheet position items.

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Currency risk (continued)

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

	EUR	USD	Other FC	Total
31 December 2015				
Assets				
Cash on hand	64.227	135.040	134.941	334.208
Balances with Central Bank	--	1.774.258	--	1.774.258
Reserve deposits at Central Bank	2.785.653	11.500.410	2.766.592	17.052.655
Due from banks	2.078.425	288.936	173.190	2.540.551
Financial assets at fair value through profit or loss	89.043	166.466	817	256.326
Loans and advances	17.220.659	23.732.797	910.834	41.864.290
Investment securities	967.861	4.907.143	295.830	6.170.834
Investment in equity- accounted investees	242.037	--	--	242.037
Property and equipment	--	--	57.746	57.746
Other assets	1.113.249	965.936	81.579	2.160.764
Total assets	**24.561.154**	**43.470.986**	**4.421.529**	**72.453.669**
Liabilities				
Deposits from banks	2.609.967	3.464.758	1.094.569	7.169.294
Deposits from customers	14.828.856	19.738.567	1.959.326	36.526.749
Obligations under repurchase agreements	--	728.499	--	728.499
Loan and advances from banks	7.801.692	12.984.388	43.138	20.829.218
Debt securities issued	--	7.339.847	--	7.339.847
Other liabilities	314.678	393.442	133.774	841.894
Total liabilities	**25.555.193**	**44.649.501**	**3.230.807**	**73.435.501**
Net on balance sheet position	**(994.039)**	**(1.178.515)**	**1.190.722**	**(981.832)**
Net off balance sheet position	**1.222.555**	**1.201.139**	**(937.097)**	**1.486.597**
Derivative financial assets	2.200.997	4.318.311	1.300.229	7.819.537
Derivative financial liabilities	978.442	3.117.172	2.237.326	6.332.940
Non-cash loans [1]	6.417.859	16.013.743	950.945	23.382.547

[1] Non-cash loans are not included in the off-balance sheet position items.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk

The Group's standard interest rate shock methods are being used on a daily basis in respect of measuring the risk arising from repricing mismatch of asset and liability items. The duration within the limits set by Banking Regulation and Supervision Agency that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Group among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders' equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders' equity.

During the maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and repricing dates are taken into account for flexible interest instruments. The net amounts of non-performing loans are placed to the relevant maturity periods longer than six months and except demand time interval under other receivables with considering their estimated collection durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

Interest rate sensitivity:

The impact on financial statements as of 31 December 2016 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied shock (+/- x basis points)	Gains/ losses	Gains/shareholders' equity – losses/ shareholders' equity
1	TL	500	(3.295.737)	(14,32%)
		(400)	3.353.847	14,57%
2	EURO	200	510.345	2,22%
		(200)	(553.459)	(2,40%)
3	USD	200	(86.661)	(0,38%)
		(200)	301.068	1,31%
	Total (For negative shocks)		**3.101.456**	**13,48%**
	Total (For positive shocks)		**(2.872.053)**	**(12,48%)**

The impact on financial statements as of 31 December 2015 regarding interest rate instabilities stated below as presented in different currencies:

	Currency	Applied shock (+/- x basis points)	Gains/ losses	Gains/shareholders' equity – losses/ shareholders' equity
1	TL	500	(2.222.523)	(10,88%)
		(200)	2.256.145	11,04%
2	EURO	400	288.034	1,41%
		(200)	(313.850)	(1,54%)
3	USD	400	124.102	0,61%
		(200)	(11.649)	(0,06%)
	Total (For negative shocks)		**(1.810.387)**	**(8,86%)**
	Total (For positive shocks)		**1.930.646**	**9,45%**

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk

Average interest rates applied to financial instruments:

Current period	**EURO**	**USD**	**JPY**	**TRY**
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey [5]	--	0,49	--	3,30
Due from other banks and financial institutions[1]	0,03	1,34	--	9,63
Financial assets at fair value through profit and loss	--	--	--	9,56
Money market placements	--	--	--	--
Available-for-sale financial assets	5,08	5,46	--	11,61
Loans[2]	4,40	5,59	--	12,80
Held-to-maturity investments	--	5,89	--	14,03
Liabilities				
Bank deposits	0,44	3,17	--	7,82
Other deposits [4]	1,37	3,09	0,25	9,46
Money market borrowings	--	1,84	--	7,52
Sundry creditors[3]	--	--	--	4,75
Bonds issued	--	4,61	--	9,35
Funds provided from other financial institutions[4]	0,66	2,37	--	7,55

Prior Period	**EURO**	**USD**	**JPY**	**TRY**
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	--	0,22	--	2,07
Due from other banks and financial institutions	0,15	0,20	--	11,80
Financial assets at fair value through profit and loss	--	2,03	--	10,44
Money market placements	--	--	--	--
Available-for-sale financial assets	5,26	5,49	--	12,26
Loans	4,26	5,13	--	12,47
Held-to-maturity investments	--	5,91	--	15,15
Liabilities				
Bank deposits	0,61	2,28	--	13,27
Other deposits	1,49	2,00	0,25	10,92
Money market borrowings	--	1,44	--	8,76
Sundry creditors	--	--	--	4,75
Bonds issued	--	4,53	--	10,72
Funds provided from other financial institutions	0,86	1,82	--	7,24

[1] Interest rates are calculated using weighted average method for money placement amounts as of balance sheet date.

[2] Interest rates are calculated using weighted average method for loans given as of balance sheet date.

[3] Declared maximum deposits interest rate with a maturity of twelve months as of 31 December 2016.

[4] Customer based calculated stock interest rates are applied to TRY and FC deposits as of 31 December 2016.

[5] Required reserve ratio of the Central Bank of TRNC and Central Bank of Macedonia.

(Currency-In thousands of Turkish Lira (“TL”))

5. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates:

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2016							
Assets							
Cash on hand	--	--	--	--	--	1.543.129	1.543.129
Balances with and reserve deposits at Central Bank	20.210.851	--	--	--	--	8.457.987	28.668.838
Due from banks	789.110	1.217.399	12.343	--	--	1.018.395	3.037.247
Financial assets at fair value through profit or loss	419.809	10.683	10.204	210	107	8.211	449.224
Loans and advances (1)	58.808.334	20.957.655	42.095.743	29.171.482	5.547.844	2.611.505	159.192.563
Investment securities	1.169.476	10.626.126	4.511.177	5.875.453	11.580.398	64.225	33.826.855
Other assets	5.200.663	281.671	673.280	1.400.468	287.219	2.092.442	9.935.743
Total assets	**86.598.243**	**33.093.534**	**47.302.747**	**36.447.613**	**17.415.568**	**15.795.894**	**236.653.599**
Liabilities and equity							
Deposits from banks	12.234.540	2.374.878	383.750	--	--	7.867.043	22.860.211
Deposits from customers	72.774.027	23.195.563	9.436.652	572.900	8.534	21.542.181	127.529.857
Obligations under repurchase agreements	8.475.046	1.478.502	891064	--	--	--	10.844.612
Loans and advances from banks	4.403.510	5.073.578	9.066.456	2.950.380	2.415.829	19.166	23.928.919
Interbank money market borrowings	--	8.177.524	--	--	--	--	8.177.524
Debt securities issued	323.378	1.052.183	3.493.383	7.875.372	--	--	12.744.316
Other liabilities (2)	1.462.375	2.145.974	1.490.415	877.669	29	24.591.698	30.568.160
Total liabilities and equity	**99.672.876**	**43.498.202**	**24.761.720**	**12.276.321**	**2.424.392**	**54.020.088**	**236.653.599**
On balance sheet interest sensitivity gap-Long	--	--	22.541.027	24.171.292	14.991.176	--	61.703.495
On balance sheet interest sensitivity gap-Short	(13.074.633)	(10.404.668)	--	--	--	(38.224.194)	(61.703.495)
Off balance sheet interest sensitivity gap-Long	351.000	287.040	2.324.592	712.029	--	--	3.674.661
Off balance sheet interest sensitivity gap-Short	--	(111.540)	(2.324.592)	(1.141.329)	--	--	(3.577.461)
Total position	**(12.723.633)**	**(10.229.168)**	**22.541.027**	**23.741.992**	**14.991.176**	**(38.224.194)**	**97.200**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders’ equity is presented in the “non-interest bearing” column.

(Currency-In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates (continued):

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2015							
Assets							
Cash on hand	--	--	--	--	--	1.258.809	1.258.809
Balances with and reserve deposits at Central Bank	16.755.948	--	--	--	--	5.485.783	22.241.731
Due from banks	831.815	72.538	--	--	--	1.767.172	2.671.525
Financial assets at fair value through profit or loss	247.364	25.553	33.861	269	5.144	27.828	340.019
Loans and advances[(1)]	44.877.032	17.838.272	33.895.040	23.210.103	4.329.749	2.539.421	126.689.617
Investment securities	10.091.625	1.290.134	2.997.419	4.590.846	9.352.854	118.153	28.441.031
Other assets	1.016.183	221.785	593.799	1.488.452	163.986	5.138.395	8.622.600
Total assets	**73.819.967**	**19.448.282**	**37.520.119**	**29.289.670**	**13.851.733**	**16.335.561**	**190.265.332**
Liabilities and equity							
Deposits from banks	8.427.245	2.409.694	525.038	--	--	3.328.873	14.690.850
Deposits from customers	56.048.591	27.198.528	6.642.534	478.726	22.424	17.416.908	107.807.711
Obligations under repurchase agreements	7.823.894	612.098	--	--	--	--	8.435.992
Loans and advances from banks	1.787.507	4.663.677	11.559.448	5.216.654	879.803	347	24.107.436
Interbank money market borrowings	--	19.965	--	--	--	--	19.965
Debt securities issued	47.656	693.676	858.861	5.781.652	1.444.591	--	8.826.436
Other liabilities[(2)]	3.202.064	222.564	1.862.029	123.614	--	20.966.671	26.376.942
Total liabilities and equity	**77.336.957**	**35.820.202**	**21.447.910**	**11.600.646**	**2.346.818**	**41.712.799**	**190.265.332**
On balance sheet interest sensitivity gap-Long	--	--	16.072.209	17.689.024	11.504.915	--	45.266.148
On balance sheet interest sensitivity gap-Short	(3.516.990)	(16.371.920)	--	--	--	(25.377.238)	(45.266.148)
Off balance sheet interest sensitivity gap-Long	--	764.369	612.369	1.332.390	--	--	2.709.128
Off balance sheet interest sensitivity gap-Short	--	(619.754)	(627.927)	(1.565.778)	--	--	(2.813.459)
Total position	**(3.516.990)**	**(16.227.305)**	**16.056.651**	**17.455.636**	**11.504.915**	**(25.377.238)**	**(104.331)**

(1) Non performing loans (net) are presented in other assets.

(2) Shareholders' equity is presented in the "non-interest bearing" column.

(Currency - In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The bank operates in offshore markets. As of 31 December 2016 and 31 December 2015, its capital adequacy ratio is above 12%.

The Bank's consolidated regulatory capital position at 31 December 2016 and 31 December 2015 was as follows:

	31 December 2016	31 December 2015
Tier 1 capital	20.984.586	19.058.857
Tier 2 capital	2.049.136	1.139.290
Deductions from capital	(176.365)	(98.636)
Total regulatory capital	**22.857.357**	**20.099.511**
Risk-weighted assets	166.783.094	135.237.788
Value at market risk	2.225.538	6.908.525
Operational risk	12.718.488	12.041.060
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12,58%	13,04%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	11,55%	12,36%

Fair value of financial instruments

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

	Carrying amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets				
Cash on hand	1.543.129	1.258.809	1.543.129	1.258.809
Balances with Central Bank	11.268.177	5.151.550	11.268.177	5.151.550
Reserve deposits at Central Bank	17.400.661	17.090.181	17.400.661	17.090.181
Due from banks	3.037.247	2.671.525	3.037.247	2.671.525
Loans and advances	158.898.373	126.643.840	149.215.496	115.429.522
Investment securities				
-Held-to-maturity investment securities	*18.344.626*	*16.904.877*	*18.302.970*	*16.520.672*
Finance lease receivables	2.144.498	2.123.482	2.144.498	2.123.482
	212.636.711	**171.844.264**	**202.912.178**	**160.245.741**
Financial liabilities				
Deposits from banks	22.860.211	14.690.850	22.860.211	14.690.850
Deposits from customers	127.529.857	107.807.711	127.669.890	107.909.428
Obligations under repurchase agreements	10.844.612	8.435.992	10.844.612	8.435.992
Loans and advances from banks	23.928.919	24.107.436	25.926.472	25.620.262
Interbank money market borrowings	8.177.524	19.965	8.177.524	19.965
Debt securities issued	12.744.316	8.826.436	12.180.887	8.826.634
Subordinated liabilities	--	47.144	--	47.144
	206.085.439	**163.935.534**	**207.659.596**	**165.550.275**

5. Financial risk management (continued)

Fair value of financial instruments (continued)

Fair values of financial assets such as financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Bank management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances, investment securities, deposits from customers, loans and advances from banks and debt securities issued. These financial assets and liabilities include due from banks, cash on hand, balances wish Central Bank, reserve deposits at Central Bank, finance lease receivables, deposits from banks, obligations under repurchase agreements and interbank money market borrowings. The Bank management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

For the financial assets and liabilities such as loans and advances, loans and advances from banks, finance lease receivables, deposits and derivative financial instruments; valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates. 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 that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. As of 31 December 2016 and 31 December 2015, the Group's fair value classification of financial assets held to the maturity is Level 1.

Classification of fair value measurement

The classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value are disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Group. This distinction brings about a fair value measurement classification generally 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 (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

•Level 3: The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of 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.

(Currency - In thousands of Turkish Lira ("TL"))

5. Financial risk management (continued)

Classification of fair value measurement (continued)

Classification requires using observable market data if possible.

31 December 2016	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:					
Financial assets at fair value through profit or loss	441.114	81.005	360.109	--	441.114
Debt securities	*65.538*	*65.538*	--	--	*65.538*
Derivative financial assets held for trading purpose	*360.109*	--	*360.109*	--	*360.109*
Share certificates	*3.095*	*3.095*	--	--	*3.095*
Other securities[1]	*12.372*	*12.372*	--	--	*12.372*
Available-for-sale financial assets [2]	15.421.388	15.421.388	--	--	15.421.388
Debt securities	*15.419.448*	*15.419.448*	--	--	*15.419.448*
Other securities	*1.940*	*1.940*	--	--	*1.940*
Total financial assets	**15.862.502**	**15.502.393**	**360.109**	**--**	**15.862.502**
Financial liabilities at fair value through profit/loss:					
Derivative financial liabilities held for trading purpose	224.593	--	224.593	--	224.593
Total financial liabilities	**224.593**	**--**	**224.593**	**--**	**224.593**

[1] As of 31 December 2016, marketable securities amounting to TL 8.110 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

[2] As of 31 December 2016 share certificates amounting to TL 60.841 in available for sale financial assets are not included in the above table, which are measured at cost.

31 December 2015	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:					
Financial assets at fair value through profit or loss	333.807	80.191	253.616	--	333.807
Debt securities	*61.672*	*61.672*	--	--	*61.672*
Derivative financial assets held for trading purpose	*253.616*	--	*253.616*	--	*253.616*
Share certificates	*3.318*	*3.318*	--	--	*3.318*
Other securities[1]	*15.201*	*15.201*	--	--	*15.201*
Available-for-sale financial assets [2]	11.418.210	11.418.210	--	--	11.418.210
Debt securities	*11.390.219*	*11.390.219*	--	--	*11.390.219*
Other securities	*27.991*	*27.991*	--	--	*27.991*
Total financial assets	**11.752.017**	**11.498.401**	**253.616**	**--**	**11.752.017**
Financial liabilities at fair value through profit/loss:					
Derivative financial liabilities held for trading purpose	175.673	--	175.673	--	175.673
Total financial liabilities	**175.673**	**--**	**175.673**	**--**	**175.673**

[1] As of 31 December 2015, marketable securities amounting to TL 6.212 that are measured at amortised cost, are not included in financial assets at fair value through profit or loss.

[2] As of 31 December 2015 share certificates amounting to TL 117.944 in available for sale financial assets are not included in the above table, which are measured at cost.

(Currency - In thousands of Turkish Lira ("TL"))

6. Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

	Trading	Designated at fair value	Held-to maturity	Loans and receivables	Available for-sale	Other amortised cost	Total carrying amount
31 December 2016							
Cash on hand	--	--	--	1.543.129	--	--	1.543.129
Balances with Central Bank	--	--	--	11.268.177	--	--	11.268.177
Reserve deposits at Central Bank	--	--	--	17.400.661	--	--	17.400.661
Due from banks	--	--	--	3.037.247	--	--	3.037.247
Financial assets at fair value through profit or loss							
- Trading securities	89.115	--	--	--	--	--	89.115
- Derivative financial instruments	360.109	--	--	--	--	--	360.109
Loans and advances	--	--	--	158.898.373	--	--	158.898.373
Insurance premium receivables	--	--	--	391.236	--	--	391.236
Investment securities:							
-Measured at fair value	--	--	--	--	15.482.229	--	15.482.229
-Measured at amortised cost	--	--	18.344.626	--	--	--	18.344.626
Finance lease receivables	--	--	--	2.144.498	--	--	2.144.498
Total assets	**449.224**	**--**	**18.344.626**	**194.683.321**	**15.482.229**	**--**	**228.959.400**
Deposits from banks	--	--	--	--	--	22.860.211	22.860.211
Deposits from customers	--	--	--	--	--	127.529.857	127.529.857
Obligations under repurchase agreements	--	--	--	--	--	10.844.612	10.844.612
Loans and advances from banks	--	--	--	--	--	23.928.919	23.928.919
Interbank money market borrowings	--	--	--	--	--	8.177.524	8.177.524
Derivative financial instruments	224.593	--	--	--	--	--	224.593
Debt securities issued	--	--	--	--	--	12.744.316	12.744.316
Subordinated liabilities	--	--	--	--	--	--	--
Insurance contract liabilities	--	--	--	--	--	1.666.823	1.666.823
Total liabilities	**224.593**	**--**	**--**	**--**	**--**	**207.752.262**	**207.976.855**

(Currency – In thousands of Turkish lira (“TL”))

6. Classification of financial assets and financial liabilities (continued)

	Trading	Designated at fair value	Held-to maturity	Loans and receivables	Available for-sale	Other amortised cost	Total carrying amount
31 December 2015							
Cash on hand	--	--	--	1.258.809	--	--	1.258.809
Balances with Central Bank	--	--	--	5.151.550	--	--	5.151.550
Reserve deposits at Central Bank	--	--	--	17.090.181	--	--	17.090.181
Due from banks	--	--	--	2.671.525	--	--	2.671.525
Financial assets at fair value through profit or loss							
- Trading securities	86.403	--	--	--	--	--	86.403
- Derivative financial instruments	253.616	--	--	--	--	--	253.616
Loans and advances	--	--	--	126.643.840	--	--	126.643.840
Insurance premium receivables	--	--	--	299.481	--	--	299.481
Investment securities:							
-Measured at fair value	--	--	--	--	11.536.154	--	11.536.154
-Measured at amortised cost	--	--	16.904.877	--	--	--	16.904.877
Finance lease receivables	--	--	--	2.123.482	--	--	2.123.482
Total assets	**340.019**	**--**	**16.904.877**	**155.184.994**	**11.536.154**	**--**	**183.965.134**
Deposits from banks	--	--	--	--	--	14.690.850	14.690.850
Deposits from customers	--	--	--	--	--	107.807.711	107.807.711
Obligations under repurchase agreements	--	--	--	--	--	8.435.992	8.435.992
Loans and advances from banks	--	--	--	--	--	24.107.436	24.107.436
Interbank money market borrowings	--	--	--	--	--	19.965	19.965
Derivative financial instruments	175.673	--	--	--	--	--	175.673
Debt securities issued	--	--	--	--	--	8.826.436	8.826.436
Subordinated liabilities	--	--	--	--	--	47.144	47.144
Insurance contract liabilities	--	--	--	--	--	1.144.164	1.144.164
Total liabilities	**175.673**	**--**	**--**	**--**	**--**	**165.079.698**	**165.255.371**

(*) Due from banks do not include money market placements.

(Currency – In thousands of Turkish lira ("TL"))

7. Operating segments

The Group has five reportable segments, corporate, commercial, entrepreneur, treasury/investment and other which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis.

31 December 2016	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment**[2]	**Other**[1]	**Eliminations**	**Group**
Interest income	1.474.585	2.138.386	10.406.769	3.026.965	316.502	--	17.363.207
Interest expense	(879.936)	(420.987)	(6.006.409)	(2.589.050)	(116.395)	--	(10.012.777)
Net interest income	**594.649**	**1.717.399**	**4.400.360**	**437.915**	**200.107**	**--**	**7.350.430**
Net fee and commission income	194.413	221.663	754.129	257.443	(189.545)	--	1.238.103
Net trading income from securities	--	--	--	20.281	--	--	20.281
Net trading income / (loss) from derivative transactions	--	--	--	16.657	(5.499)	--	11.158
Foreign exchange gain/(losses), net	--	--	--	113.898	37.617	--	151.515
Net impairment losses on loans and advances	(182.336)	(430.861)	(603.701)	(366.081)	(62.013)	--	(1.644.992)
Income from insurance operations	--	--	--	--	1.293.068	--	1.293.068
Cost of insurance operations	--	--	--	--	(1.170.476)	--	(1.170.476)
Dividend income	--	--	--	37.873	113	--	37.986
Other income	8.744	26.552	254.916	83.104	66.267	--	439.583
Other expenses	(17.159)	(64.826)	(1.696.112)	(2.213.724)	(8.227)	--	(4.000.048)
Profit before income tax	**598.311**	**1.469.927**	**3.109.592**	**(1.612.634)**	**161.412**	**--**	**3.726.608**
Income tax expense	--	--	--	(698.317)	(10.033)	--	(708.350)
Profit for the year	**598.311**	**1.469.927**	**3.109.592**	**(2.310.951)**	**151.379**	**--**	**3.018.258**

(1) Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Faktoring AŞ and Bileşim AŞ transactions are shown in other column.

(2) Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Banka AD, Skopje, Halkbank AD., Beograd transactions are shown in "treasury/investment" column.

(Currency – In thousands of Turkish lira (“TL”))

7. Operating segments (continued)

31 December 2015	Corporate	Commercial	Entrepreneur	Treasury /Investment [2]	Other [1]	Eliminations	Group
Interest income	1.252.248	1.566.379	7.834.586	3.093.570	225.929	--	13.972.712
Interest expense	(754.908)	(305.330)	(4.773.771)	(2.117.074)	(85.868)	--	(8.036.951)
Net interest income	**497.340**	**1.261.049**	**3.060.815**	**976.496**	**140.061**	**--**	**5.935.761**
Net fee and commission income	180.974	227.705	624.468	210.111	(149.324)	--	1.093.934
Net trading income from securities	--	--	--	32.960	--	--	32.960
Net trading loss from derivative transactions	--	--	--	150.302	(24.721)	--	125.581
Foreign exchange gain/(losses), net	--	--	--	(443.371)	44.042	--	(399.329)
Net impairment losses on loans and advances	(371.039)	(249.537)	(386.691)	(303.387)	(49.758)	--	(1.360.412)
Income from insurance operations	--	--	--	--	804.102	--	804.102
Cost of insurance operations	--	--	--	--	(663.287)	--	(663.287)
Dividend income	--	--	--	4.254	--	--	4.254
Other income	6.976	51.758	122.851	91.242	22.790	--	295.617
Other expenses	(19.171)	(64.802)	(1.658.274)	(1.858.825)	(19.046)	--	(3.620.118)
Profit before income tax	**295.493**	**1.226.173**	**1.763.169**	**(1.140.218)**	**104.859**	**--**	**2.249.063**
Income tax expense	--	--	--	(433.296)	(28.342)	--	(461.638)
Profit for the year	**295.080**	**1.226.173**	**1.763.169**	**(1.573.514)**	**76.517**	**--**	**1.787.425**

[1] Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ and Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are shown in other column.

[2] Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in “treasury/investment” column.

(Currency – In thousands of Turkish lira ("TL"))

7. Operating segments (continued)

The segment assets and liabilities as at 31 December 2016 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other(1)	Group
Segment assets	24.362.657	32.567.740	102.022.698	73.238.885	4.175.516	236.367.496
Investment in equity-accounted investees	--	--	--	286.103	--	286.103
Total assets	**24.362.657**	**32.567.740**	**102.022.698**	**73.524.988**	**4.175.516**	**236.653.599**
Segment liabilities	24.699.116	10.479.003	111.370.600	63.422.194	4.675.262	214.646.175
Total liabilities	**24.699.116**	**10.479.003**	**111.370.600**	**63.422.194**	**4.675.262**	**214.646.175**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Other" column.

The segment assets and liabilities as at 31 December 2015 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Other(1)	Group
Segment assets	19.120.441	24.160.214	74.383.536	69.053.707	3.289.723	190.007.621
Investment in equity-accounted investees	--	--	--	257.711	--	257.711
Total assets	**19.120.441**	**24.160.214**	**74.383.536**	**69.311.418**	**3.289.723**	**190.265.332**
Segment liabilities	14.764.190	8.274.356	89.326.441	55.275.213	3.312.817	170.953.017
Total liabilities	**14.764.190**	**8.274.356**	**89.326.441**	**55.275.213**	**3.312.817**	**170.953.017**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Other" column.

Geographical segments

The Group's geographical segments 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. 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. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

The Group's acquisition of properties and equipment, intangible assets and investment properties as of 31 December 2016 is mainly occurred in Turkey.

(Currency – In thousands of Turkish lira (“TL”))

8. Cash on hand

At 31 December 2016 and 31 December 2015, cash on hand comprised the following:

	31 December 2016	31 December 2015
Cash on hand		
- Turkish lira	*914.278*	*924.601*
- Foreign currency	*599.249*	*311.799*
Precious metals (gold)	29.570	22.394
Other liquid assets	32	15
Total cash on hand	**1.543.129**	**1.258.809**

9. Balances with Central Bank

	31 December 2016	31 December 2015
Unrestricted balances with Central Bank		
Demand deposits – Turkish Lira	2.563.615	3.377.292
Demand deposits – Foreign currency	8.704.562	1.774.258
	11.268.177	**5.151.550**
Reserve deposits		
Reserve deposits – Turkish Lira	56.496	37.526
Reserve deposits – Foreign currency	17.344.165	17.052.655
	17.400.661	**17.090.181**
Total balances with Central Bank	**28.668.838**	**22.241.731**

As per the Communiqué no. 2013/15 “Reserve Deposits” of the Central Bank of Turkey (CBT), banks keep reserve deposits at the CBT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 4%-10.5% for TL deposits and other liabilities, between 4.5%-24.5% for FC deposits for other FC liabilities. In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves.

With the amendment on 21 October 2014 by the Central Bank what is held in banks are of certain conditions: Turkish Lira required reserve amount, the Central Bank website published the weighted average funding cost (AOFM) ratio of 300 or 500 basis points missing from the rate. Turkish Liras required reserve amount related interest rates are paid 400 basis points missing from TCMB’s weekly maturity repo funding interest rate being valid from 1 January 2017.With the the change in press release dated 23 January 2015, it has been decided to apply a commission, to be charged on daily account balances on required reserves and two days notice account denominated in Euro held by banks and these are going to be collected as of 1 Feburuary 2015.

With the change in 2 May 2015 made by CBRT, US Dollars denominated required reserves, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on daily basis by taking global and local financial markets conditions into account. Effective interest rate is 0,75 % for the reporting period.

According to the Declaration of Central Bank of Cyprus dated 30 January 2014 and No.872 it is kept required reserve changes between 5% and 8% rates for Turkish Lira and foreign exchange liabilities.

With the Board of Minutes No. 129 dated 2006 of Central Bank of Macedonia, required reserve ratio are 8% for MKD currency liabilities and 15% for foreign currency liabilities.

Accordingly, Official Gazzette of Serbia No. 102/2015, Central Bank of Serbia keep reserved required ratio 5% for short term liabilities which have been less than two years and 0% for long term liabilities, more than two years, 20% for foreign short term currency liabilities, less than two years, and 13% for long term foreign liabilities more than two years.

(Currency – In thousands of Turkish lira ("TL"))

10. Due from banks

	31 December 2016	31 December 2015
Domestic banks		
Demand deposits – Turkish Lira	35.775	15.192
Demand deposits – Foreign currency	41.217	5.068
Time deposits – Turkish Lira	74.529	6.403
Time deposits – Foreign currency	68.037	526.401
	219.558	**553.064**
Foreign banks		
Demand deposits – Turkish lira	188.533	55.270
Demand deposits – Foreign currency	874.658	1.481.933
Time deposits – Turkish Lira	63.689	235
Time deposits – Foreign currency	618.412	527.149
	1.745.292	**2.064.587**
Money market placements	**1.072.397**	**53.874**
Total due from banks	**3.037.247**	**2.671.525**

For cash flow purposes, bank balances and money market placements having original maturity of less than 3 months were classified as cash and cash equivalents. These balances are amounting to TL 3.009.371 as at 31 December 2016 (31 December 2015: TL 2.669.683).

11. Securities portfolio

Financial assets at fair value through profit or loss

At 31 December 2016 and 31 December 2015, financial assets at fair value through profit or loss comprised the following:

	31 December 2016	31 December 2015
Turkish Government bonds and Eurobonds issued by the Turkish Government	65.538	61.672
Bonds issued by financial institutions	20.482	21.413
Share certificates	3.095	3.318
Total of financial assets at fair value through profit or loss	**89.115**	**86.403**

(Currency – In thousands of Turkish lira ("TL"))

11. Securities portfolio (continued)

At 31 December 2016 and 31 December 2015, available for sale securities portfolio comprised the following:

	31 December 2016	31 December 2015
Treasury bills and government bonds	15.201.823	11.271.408
Equity shares	280.406	264.746
Share certificates not quoted on a stock exchange	*350.479*	*283.653*
Allowance for impairment on equity shares	*(70.073)*	*(18.907)*
Total of available for sale securities	**15.482.229**	**11.536.154**

Available-for-sale securities include securities given as collateral amounting to TL 488.507 (31 December 2015: TL 850.788). As of 31 December 2016, available-for-sale investment securities include securities pledged under repurchase agreements amounting to TL 5.517.748 (31 December 2015: TL 1.624.489).

The equity shares in available for sale portfolio are unquoted and detailed as follows:

	31 December 2016	31 December 2015
Macar-Halk Bank Magysrorszagi VolksBank RT	19.344	19.344
IMKB Takas ve Saklama Bankası AŞ	8.501	8.501
Bankalararası Kart Merkezi AŞ	3.804	3.804
Kredi Kayıt Bürosu AŞ	2.516	2.516
Kredi Garanti Fonu İşletme ve Araştırma AŞ	4.749	4.749
Uluslararası Garagum Ortaklar Bankası	1.864	1.864
Other	309.701	242.875
Allowance for impairment on equity securities	(70.073)	(18.907)
Total equity shares in available for sale investments	**280.406**	**264.746**

The details of allowance for impairment are as follows:

	31 December 2016	31 December 2015
Macar-Halk Bank Magysrorszagi VolksBank RT	17.281	17.280
Uluslararası Garagum Ortaklar Bankası	1.626	1.627
Halk Gayrimenkul Yatırım Ortaklığı A.Ş.	51.166	--
Allowance for impairment on equity securities	**70.073**	**18.907**

(Currency – In thousands of Turkish lira ("TL"))

11. Securities portfolio (continued)

Held to maturity investment securities comprised the following items:

	31 December 2016	31 December 2015
Government bonds	18.311.223	16.887.448
Other securities	33.403	17.429
Total	**18.344.626**	**16.904.877**

Held to maturity investment securities include securities pledged under repurchase agreements and given as collateral amounting to TL 6.013.373 and TL 5.519.372 (31 December 2015: TL 7.039.584 and TL 4.179.415) respectively.

	31 December 2016	31 December 2015
Held to maturities portfolio:		
Quoted on a stock exchange	18.231.719	16.733.595
Not quoted	112.907	171.282
Total	**18.344.626**	**16.904.877**

The movements of held to maturity investment securities for the years ended 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
Beginning balance	16.904.877	17.869.082
Foreign currency differences	404.431	389.988
Purchases during the year (1)	3.731.489	2.250.175
Disposals through sales and redemptions	(2.696.171)	(3.604.368)
Balance at the end of the period	**18.344.626**	**16.904.877**

(1) Interest income accrual difference between 31 December 2016 amounting to TL 1.911.868 and 31 December 2015 amounting to TL 1.684.621 has been included in purchases row.

(Currency – In thousands of Turkish lira ("TL"))

12. Loans and advances

	31 December 2016	31 December 2015
Short term loans		
Guaranteed export loans	4.218.876	3.614.558
Other guaranteed loans	20.524.495	17.184.296
Other non-guaranteed loans	6.776.657	5.281.016
Loans provided to financial sector	461.068	283.709
Loans provided to foreign institutions	187.523	111.898
Non-guaranteed export loans	440.540	560.574
Factoring receivables	1.134.528	486.885
Interest accruals	452.069	354.533
	34.195.756	**27.877.469**
Medium and long term loans		
Guaranteed other investment and operating loans	80.208.711	62.509.339
Other non-guaranteed loans	40.826.558	32.683.006
Loans given to foreign institutions	1.251.799	967.041
Loans given to financial sector	958.956	1.356.243
Interest accruals	1.750.783	1.296.519
	124.996.807	**98.812.148**
Total performing loans and advances	**159.192.563**	**126.689.617**
Non-performing loans and advances and allowance for impairment		
Gross non-performing loans	5.320.512	4.189.536
Specific allowance for impairment on loans	(4.475.519)	(3.692.772)
Portfolio allowance for impairment on loans	(1.139.183)	(542.541)
Loans and advances, net	**158.898.373**	**126.643.840**

The movement in the allowance for impairment on loans for the year ended 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
Balance on 1 January	(4.235.313)	(3.005.549)
Net impairment loss for the year:	(1.379.389)	(1.229.764)
- Charge for the year	*(1.657.460)*	*(1.598.428)*
- Recoveries and reversals	278.071	*368.664*
Balance at 31 December	**(5.614.702)**	**(4.235.313)**

(Currency – In thousands of Turkish lira ("TL"))

13. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December 2016 and 31 December 2015, insurance receivables comprised the following:

	31 December 2016	31 December 2015
Receivables from reinsurance and insurance companies	232.212	178.010
Receivables from agencies, brokers and intermediaries	165.840	123.123
Cash deposited to insurance and reinsurance companies	21.230	22.928
Total insurance receivables	**419.282**	**324.061**
Allowance for non-performing insurance receivables	(28.046)	(24.580)
Insurance receivables, net	**391.236**	**299.481**

The details of guarantees for the Group's insurance receivables are presented below:

	31 December 2016	31 December 2015
Mortgage notes	11.018	11.082
Letters of guarantees	5.407	4.517
Treasury bills and government bonds	1.034	808
Other guarantees	242	236
Total	**17.701**	**16.643**

The movement in the allowance for impairment in respect of insurance receivables for the periods ended 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
Balance at 1 January	24.580	21.015
Impairment loss recognised	4.975	4.946
Collections during the period	(1.509)	(1.381)
Balance at 31 December	**28.046**	**24.580**

(Currency – In thousands of Turkish lira (“TL”))

13. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

Insurance technical reserves as of 31 December 2016 and 31 December 2015 are detailed in the tables below:

	31 December 2016	31 December 2015
Life mathematical reserve	256.070	222.223
Unearned premiums reserve	510.838	423.104
Claims provision	813.416	416.189
Unexpired risk reserve	44.737	40.658
Other technical reserves	168	1.962
Total technical reserve	**1.625.229**	**1.104.136**
Other insurance liabilities	41.594	40.028
Total insurance contract liabilities	**1.666.823**	**1.144.164**

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2016	31 December 2015
Demir-Halk Bank NV	270.028	242.037
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	14.854	14.764
Türk P ve I Sigorta AŞ	1.221	910
Equity accounted investees	**286.103**	**257.711**

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

	Ownership	Total assets	Equity	Profit / (loss) for the year
2016				
Demir-Halk Bank NV	30,00%	6.533.210	900.095	56.364
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	47.722	47.193	323
Türk P ve I Sigorta AŞ	16,67%	17.478	5.044	1.379
2015				
Demir-Halk Bank NV	30,00%	5.987.184	745.560	34.505
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31,47%	47.368	46.911	698
Türk P ve I Sigorta AŞ	16,67%	10.773	3.789	(539)

(Currency – In thousands of Turkish lira (“TL”))

15. Finance lease receivables

Maturity structure of investments on financial lease:

	31 December 2016		31 December 2015	
	Gross	**Net**	**Gross**	**Net**
Less than 1 year	648.399	521.243	698.188	558.759
Between 1-4 years	1.426.002	1.220.074	1.342.529	1.191.590
More than 4 years	476.994	403.181	429.573	373.133
Total	**2.551.395**	**2.144.498**	**2.470.290**	**2.123.482**

Information on gross investments of financial lease:

	31 December 2016	31 December 2015
Gross financial lease investment	2.551.395	2.470.290
Unearned revenues from financial lease	(406.897)	(346.808)
Net finance lease receivable	**2.144.498**	**2.123.482**

Information on receivables from non-performing loans of financial lease:

	31 December 2016	31 December 2015
Non-performing financial lease receivables	286.729	357.537
Specific provisions	(214.397)	(163.884)
Total	**72.332**	**193.653**

The movement in the allowance for impairment on finance lease receivables for the year ended 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
Balance on 1 January	(163.884)	(128.999)
Net impairment loss for the year:	(50.513)	(34.885)
- Charge for the year	*(79.953)*	*(36.463)*
- Recoveries and reversals	*29.440*	*1.578*
Total	**(214.397)**	**(163.884)**

(Currency – In thousands of Turkish lira ("TL"))

16. Property and equipment

	Land and buildings	Lease hold improvements	Tangible assets obtained for non-performing loans	Other movable tangible assets	Total
Cost					
Balance at 1 January 2015	1.112.151	144.016	481.178	702.477	2.439.822
Additions	98.267	69.560	1.997.997	152.998	2.318.822
Disposals	(256.452)	(72.879)	(1.935.495)	(41.030)	(2.305.856)
Revaluation surplus	2.224.434	--	--	--	2.224.434
Transfers	(765.396)	--	--	(1.987)	(767.383)
Balance at 31 December 2015	**2.413.004**	**140.697**	**543.680**	**812.458**	**3.909.839**
Balance at 1 January 2016	2.413.004	140.697	543.680	812.458	3.909.839
Additions	16.759	16.151	174.456	62.305	269.671
Disposals	(3.302)	(3.443)	(96.513)	(19.870)	(123.128)
Revaluation surplus	216.993	--	--	--	216.993
Transfers	(163.588)	(257)	--	(3.305)	(167.150)
Balance at 31 December 2016	**2.479.866**	**153.148**	**621.623**	**851.588**	**4.106.225**
Depreciation and impairment losses					
Balance at 1 January 2015	(219.090)	(77.087)	(15.872)	(447.825)	(759.874)
Depreciation for the year	(24.015)	(28.114)	(4.678)	(94.194)	(151.001)
Disposals	117.948	34.778	2.101	19.823	174.650
Revaluation surplus	(160.308)	--	--	--	(160.308)
Transfers	125.276	--	--	--	125.276
Balance at 31 December 2015	**(160.189)**	**(70.423)**	**(18.449)**	**(522.196)**	**(771.257)**
Balance at 1 January 2016	(160.189)	(70.423)	(18.449)	(522.196)	(771.257)
Depreciation for the year	(10.533)	(14.886)	(6.527)	(92.692)	(124.638)
Disposals	19.378	3.828	2.372	45.401	70.979
Revaluation surplus	(9.154)	--	--	--	(9.154)
Transfers	615	--	--	--	615
Balance at 31 December 2016	**(159.883)**	**(81.481)**	**(22.604)**	**(569.487)**	**(833.455)**
Provision for impairment at 1 January 2015	**(1.855)**	--	**(6.391)**	--	**(8.246)**
Additions	--	--	(1.872)	--	(1.872)
Disposals	591	--	1.129	--	1.720
Transfers	49	--	--	--	49
Total provision for impairment at 1 January 2015	**(1.215)**	**--**	**(7.134)**	**--**	**(8.349)**
Provision for impairment at 1 January 2016	**(1.215)**	**--**	**(7.134)**	**--**	**(8.349)**
Additions	--	--	(4.476)	--	(4.476)
Disposals	6	--	585	--	591
Transfers	--	--	--	--	--
Total provision for impairment at 1 January 2016	**(1.209)**	**--**	**(11.025)**	**--**	**(12.234)**
Carrying amounts					
At 1 January 2015	**893.061**	**66.929**	**465.306**	**254.652**	**1.679.948**
At 31 December 2015	**2.251.600**	**70.274**	**518.097**	**290.262**	**3.130.233**
At 31 December 2016	**2.318.774**	**71.667**	**587.994**	**282.101**	**3.260.536**

The fair values of land and buildings were determined from market-based evidence by appraisals which are undertaken by qualified external appraisers. The Group renews the revaluations every year and recognizes impairment loss when the recoverable amounts of such assets become less than their carrying amounts. The fair value of the lands and buildings which are held for use are determined with equivalence value and that measurement is classified as Level 2.

(Currency – In thousands of Turkish lira ("TL"))

17. Intangible assets

	Intangible assets	Total
Cost		
Balance at 1 January 2015	118.614	118.614
Additions	55.913	55.913
Disposals	(10.896)	(10.896)
Balance at 31 December 2015	**163.631**	**163.631**
Balance at 1 January 2016	163.631	163.631
Additions	54.071	54.071
Disposals	(2.608)	(2.608)
Balance at 31 December 2016	**215.094**	**215.094**
Amortisation		
Balance at 1 January 2015	(34.765)	(34.765)
Amortisation for the year	(26.213)	(26.213)
Disposals	353	353
Balance at 31 December 2015	**(60.625)**	**(60.625)**
Opening balance, 1 January 2016	(60.625)	(60.625)
Amortisation for the year	(38.994)	(38.994)
Disposals	73	73
Balance at 31 December 2016	**(99.546)**	**(99.546)**
Carrying amounts		
At 1 January 2015	**83.849**	**83.849**
At 31 December 2015	**103.006**	**103.006**
At 31 December 2016	**115.548**	**115.548**

18. Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The non-current assets held for sale of the Group as of 31 December 2016 is TL 1.280 (31 December 2015: TL 2.437).

19. Investment property

	2016	2015
Balance at 1 January	485.594	24.529
Acquisitions	7.118	2.289
Transfer	435.903	458.933
Disposals	--	--
Depreciation	(64.499)	(157)
Balance at 31 December	**864.116**	**485.594**

The Group's investment property expertise reports are prepared by independent professional valuation specialists authorized by Capital Markets Board of Turkey. TL 32.105 of rent income is generated from investment properties in current year (31 December 2015: TL 7.919). The fair value of investment property is determined by equivalence value method and is reclassified as Level 2.

(Currency – In thousands of Turkish lira ("TL"))

20. Other assets

At 31 December 2016 and 31 December 2015, other assets comprised the following:

	31 December 2016	31 December 2015
Prepaid expenses	607.879	464.995
Receivables from credit card payments	346.496	257.971
Cash guarantees given	340.073	109.025
Clearing house account	324.692	390.322
Advances given for lease transactions	133.621	48.059
Receivables from asset sale on credit terms	79.650	104.724
Guarantees given for derivative financial instruments	53.980	38.599
Other assets	839.685	564.773
Total other assets	**2.726.076**	**1.978.468**

21. Deposits

At 31 December 2016 and 31 December 2015, deposits from banks comprised the following:

	31 December 2016	31 December 2015
Demand deposits	7.867.130	3.328.873
Time deposits	14.993.081	11.361.977
Deposits from banks	**22.860.211**	**14.690.850**

As at 31 December 2016, deposits from banks include TL accounts amounting to TL 10.054.872 (31 December 2015: TL 8.364.238) and foreign currency accounts amounting to TL 12.805.339 (31 December 2015: TL 6.326.612) in total.

At 31 December 2016 and 31 December 2015, deposits from customers comprised the following:

	31 December 2016		31 December 2015	
	Demand	**Time**	**Demand**	**Time**
Saving deposits	6.158.114	34.424.834	4.293.350	30.914.106
Foreign currency deposits	8.347.244	42.425.562	7.090.439	29.436.310
Commercial deposits	4.294.379	19.754.717	3.212.174	19.604.476
Public institutions and other deposits	2.770.421	9.354.586	3.003.997	10.252.859
Deposits from customers	**21.570.158**	**105.959.699**	**17.599.960**	**90.207.751**

(Currency – In thousands of Turkish lira ("TL"))

22. Obligations under repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	31 December 2016	31 December 2015
Obligations under repurchase agreements	10.844.612	8.435.992
Total	**10.844.612**	**8.435.992**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2016, the maturities of the obligations varied from one day to 1 year (31 December 2015: one day to 1 year).

23. Loan and advances from banks

At 31 December 2016 and 31 December 2015, loans and advances from banks comprised the following:

	31 December 2016	31 December 2015
Borrowings	21.589.111	22.143.737
Funds	2.339.808	1.963.699
Total	**23.928.919**	**24.107.436**

At 31 December 2016 and 31 December 2015, borrowings comprised the following:

	31 December 2016		31 December 2015	
	Short term	**Long term**	**Short term**	**Long term**
Loans and advances from domestic banks and institutions	968.495	770.323	851.253	1.030.320
Loans and advances from foreign banks and institutions	4.927.580	14.922.713	7.965.899	12.296.265
Borrowings	**5.896.075**	**15.693.036**	**8.817.152**	**13.326.585**

Borrowings are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as of 31 December 2016 (31 December 2015: None).

Funds borrowed include funds obtained that are granted as loans as specified in the agreements signed between the Bank, and the ministries or the institutions that the funds belong to.

(Currency – In thousands of Turkish lira ("TL"))

23. Loan and advances from banks (continued)

As at 31 December 2016 and 31 December 2015, interest rates and maturities of bank borrowings are as follows:

Fixed rates			
31 December 2016	**Amount**	**Interest rate**	**Maturity**
USD borrowings	10.602.350	0% - 5,69%	January 2016 - September 2038
EUR borrowings	7.404.614	0% - 0,03%	January 2016 - September 2038
TL borrowings	1.171.764	5,00% - 10,03%	January 2016 - December 2018
Other borrowings	34.322	2,21%	February 2017
Total	**19.213.050**		

Floating rates			
31 December 2016	**Amount**	**Interest rate**	**Maturity**
USD borrowings	614.250	Libor+0,55	July 2017
EUR borrowings	1.761.811	Euribor+0,45	July 2017
Total	**2.376.061**		

Fixed rates			
31 December 2015	**Amount**	**Interest rate**	**Maturity**
USD borrowings	12.494.288	0% - 5,69%	January 2015 - September 2038
EUR borrowings	5.785.692	0% - 0,03%	January 2015 - September 2038
TL borrowings	1.314.519	5,00% - 10,03%	January 2015 - December 2018
Other borrowings	43.138	2,21%	February 2016
Total	**19.637.637**		

Floating rates			
31 December 2015	**Amount**	**Interest rate**	**Maturity**
USD borrowings	490.100	Libor+0,50	July 2015
EUR borrowings	2.016.000	Euribor+0,50	July 2015
Total	**2.506.100**		

As of 31 December 2016, borrowings from foreign banks and institutions include syndicated loans amounting to USD 175.000.000 and EUR 476.500.000 (31 December 2015: USD 169.000.000 and EUR 640.000.000).

(Currency – In thousands of Turkish lira ("TL"))

24. Interbank money market borrowings

	31 December 2016	31 December 2015
Payables to stock exchange money market	1.032.372	39
On behalf of customer	7.145.152	19.926
Total	**8.177.524**	**19.965**

Payables to stock exchange money markets have a maturity of 31 days (31 December 2015: 31 days) 15,24% (31 December 2015: 14,30%) of interest rates.

25. Taxation

The Bank and its subsidiaries located in Turkey are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2016 (31 December 2015: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

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

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2016 is 20% (31 December 2015: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, 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% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

(Currency – In thousands of Turkish lira ("TL"))

25. Taxation (continued)

Investment incentives

As per the provisional Article no. 69, effective from 1 January 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated 8 April 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on 31 December 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at 31 December 2008.

In accordance with the decision taken by the Turkish Constitutional Court on 15 October 2009, the "2006, 2007 and 2008" clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the 8 January 2010 Official Gazette number 27456. Accordingly, the Group's subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per "Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws" accepted on 23 July 2010 at the Grand National Assembly of Turkey, the expression of "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date" has been amended as "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date" and the following expression of " Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate" has been added. This Law has been published in the Official Gazette on 1 August 2010.

The clause "The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income" which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the 9 February 2012 dated decisions no: E.2010/93 and K.2012/20.

Transfer pricing

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

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

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
TRNC	10%	10%
Bahrain	--	--
Serbia	15%	15%
Republic of Macedonia	10%	10%

As of 31 December 2016 and 31 December 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	625.363	182.802
Income tax paid in advance	(560.753)	(58.462)
Income tax payables	**64.610**	**124.160**

(Currency – In thousands of Turkish lira ("TL"))

25. Taxation (continued)

Deferred taxes

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

Deferred tax assets and liabilities are attributable to the following:

	31 December 2016	**31 December 2015**
Valuation differences on financial assets and liabilities	(375.878)	(224.107)
Provisions	277.574	203.319
Portfolio and specific provision for impairment on loans and advances	336.098	206.525
Other	202.746	102.228
Deferred tax assets	**440.540**	**287.965**

As of 31 December 2016, the Group also has deferred tax liability amounting to TL 288.974 (31 December 2015: TL 71.264).

	31 December 2016	**31 December 2015**
Deferred tax asset/(liability)		
Provision	183.840	162.891
Valuation of financial assets	(376.569)	(224.515)
Other	(96.245)	(7.640)
Deferred tax asset/(liability)	**(288.974)**	**(69.264)**

Movement of net deferred tax can be presented as follows:

	2016	**2015**
Deferred tax, net at 1 January	216.701	434.008
Deferred income tax recognised in other comprehensive income	18.034	92.389
Deferred tax recognised in the profit or loss	(83.169)	(309.696)
Deferred tax, net	**151.566**	**216.701**

An analysis of the Group's income tax expense for the year ended 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	**31 December 2015**
Current tax expense		
Current period	625.181	151.942
Deferred tax expense/ (benefit)		
Origination and reversal of temporary differences	83.169	309.696
Total income tax expense	**708.350**	**461.638**

(Currency – In thousands of Turkish lira (“TL”))

25. Taxation (continued)

Reconciliation of effective tax rate

The reported taxation charge for the year ended 31 December 2016 and 31 December 2015 are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	31 December 2016		**31 December 2015**	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**3.726.608**		**2.249.063**	
Income tax using the Bank’s domestic tax rate	745.322	20,00	449.813	20,00
Tax exempt income	(72.851)	(1,95)	(12.139)	(0,50)
Non-deductible expenses	35.879	0,96	23.964	1,00
Income tax expense	**708.350**	**19,01**	**461.638**	**20,50**

26. Other liabilities and provisions

	31 December 2016	**31 December 2015**
Other liabilities		
Cooperative deposit blockages	1.350.126	1.081.612
Credit card members restricted account	1.166.562	942.086
Unearned revenue	772.757	593.823
Cheques clearance account	746.603	856.972
Taxes and dues payable	292.151	258.457
Banking transactions	111.887	115.349
Payment orders	31.545	18.455
Resource utilization support fund	31.253	29.096
Import transfer orders	30.394	6.929
Collaterals received for derivative instruments	14.134	13.296
Other liabilities	515.568	386.656
Total	**5.062.980**	**4.302.731**
Provisions		
Employee termination benefits	421.497	409.923
Unused vacation provision	139.874	131.873
Provision on non-cash loans	139.279	93.877
Provision on lawsuits	37.481	37.481
Provisions for credit card bonuses	12.680	9.992
Other	501.945	516.345
Total	**1.252.756**	**1.199.491**

(Currency – In thousands of Turkish lira ("TL"))

26. Other liabilities and provisions (continued)

Employee termination benefits

In accordance with existing social legislation, the Bank 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 full TL 4.297,21 and full TL 3.828,37 at 31 December 2016 and 31 December 2015 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements the Group reflected a liability calculated using the Actuarial 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 annual ceiling has been increased to full TL 4.426,16 effective 1 January 2017.

The principal actuarial assumptions used in the calculation of the total liability at the reporting date are as follows:

	31 December 2016	31 December 2015
Discount rate for pension plan liabilities	7,80%	10,75%
Expected rates of salary increase	11,20%	7,95%
Inflation	8,00%	7,75%

Movements in the present value of the defined benefit obligation were as follows:

	31 December 2016	31 December 2015
Defined benefit obligation at 1 January	409.923	372.392
Current service cost	39.704	36.388
Interest cost	42.955	30.886
Actuarial losses/(gains)	(21.783)	5.764
Previous year service cost charged for the period	877	216
Payment/ limitation of benefits/ loss (gain) because of discharge	136	(367)
Benefits paid	(50.315)	(35.356)
Defined benefit obligation at 31 December	**421.497**	**409.923**

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

	31 December 2016	31 December 2015
Current service cost	39.704	36.388
Interest cost	42.955	30.886
Previous Charge for the last financial period	877	216
Payment/ limitation of benefits/ loss (gain) because of discharge	136	(367)
	83.672	**67.123**

(Currency – In thousands of Turkish lira ("TL"))

27. Derivative financial instruments

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. 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 year-end and are neither indicative of the market risk nor credit risk.

	31 December 2016			**31 December 2015**		
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Currency swap contracts	128.468	17.465	5.622.434	30.776	26.998	8.802.995
Other swap contracts	110.992	--	9.804.244	84.698	--	7.595.638
Other	120.649	207.128	10.224.988	138.142	148.675	9.104.652
Total	**360.109**	**224.593**	**25.651.666**	**253.616**	**175.673**	**25.503.285**

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

28. Debt securities issued and subordinated liabilities

	31 December 2016	**31 December 2015**
Debt securities issued at amortized cost	12.744.316	8.826.436
Total of debt securities issued	**12.744.316**	**8.826.436**

As of 27 November 2015, the treasury bills amounting to TL 1.000.000 with maturity of 175 days are issued by the Bank. Also, as of 11 September 2015, the Bank issued treasury bills amounting to TL 750.000 with maturity of 175 days. As of 19 July 2012, the bonds amounting to USD 750.000.000 with maturity of 5 years and as of 5 February 2013, the bonds amounting to USD 750.000.000 with maturity of 7 years and as of 4 June, 2014, the bonds amounting to USD 500.000.000 with maturity of 5 years and 11 February 2015, the bonds amounting to USD 500.000.000 with maturity of 5 years are issued by the Bank. In July 2016, the Bank issued its fifth Eurobond of USD 500.000.000 with 5 years maturity. Halkbank intends to continue to diversify its funding base with international financings and debt capital market instruments.

There is no subordinated liabilities as of 31 December 2016 (31 December 2015: TL 47.144).

29. Share capital

As at 31 December 2016, the authorized nominal share capital of the Bank amounts to TL 1.250.000 (31 December 2015: TL 1.250.000). The Bank's paid-in capital is divided into 1.250.000.000 shares, each with a nominal value of full TL 1.

	31 December 2016	**31 December 2015**
Paid-in capital	1.250.000	1.250.000
Inflation restatement effect	1.328.184	1.328.184
Shared capital issued	**2.578.184**	**2.578.184**

(Currency – In thousands of Turkish lira ("TL"))

30. Reserves and dividends paid and proposed

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised. Fair value reserve amount is TL (724.098) (31 December 2015: TL (290.301)).

Other reserves

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 31 December 2016 are TL 1.562.172 (31 December 2015: TL 1.393.927).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve as at 31 December 2016 is TL 56.137 (31 December 2015: TL 61.927).

As of 1 April 2015, the Group adopted the revaluation method for land and buildings in tangible assets in accordance with International Accounting Standard No: 16 "Property, Plant and Equipment" (IAS 16). Expertise values determined by an independent expert companies are reflected to the financial statements. Revaluation differences are recorded in "Revaluation differences of property and equipment" under the shareholders' equity. The revaluation differences of property and equipment is TL 434.347 for the current year.

Total of the other reserves amount is TL 3.711.960 (31 December 2015: TL 3.131.364).

Dividends paid and proposed

As of the reporting date, the Bank has paid TL 238.603 out of 2015 profit (31 December 2015: TL 223.553).

31. Earnings per share

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

There is no dilution of shares as of 31 December 2016 and 31 December 2015.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	31 December 2016	**31 December 2015**
Net profit attributable to ordinary shareholders for basic earnings per share	3.012.408	1.777.099
Weighted average number of ordinary shares for basic earnings per share	1.250.000.000	1.250.000.000
Basic earnings per share (full TL per share)	**2,4099**	**1,4217**

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

(Currency – In thousands of Turkish lira (“TL”))

32. Related parties

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders 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 and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration (incorporated in Turkey). Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

Key management personnel comprise of the Group’s directors and key management executive officers.

As of 31 December 2016 and 31 December 2015 the Group’s directors and executive officers have no outstanding personnel loans from the Bank.

In addition to their salaries, the Group also provides non-cash benefits to directors.

Total compensation provided to key management personnel is:

	2016	**2015**
Salaries and short-term benefits	21.020	23.316

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank's management believes that all such agreements or protocols are on terms that are at least as advantageous to the Bank as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

Related party balances and transactions

2016	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	1.926	20.576	--	2.529	--
Kredi Kayıt Bürosu AŞ	--	--	--	--	--	--
Bankalararası Kart Merkezi AŞ	--	--	--	--	--	--
Total	**--**	**1.926**	**20.576**	**--**	**2.529**	**--**

2015	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission income**
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	2.220	21.900	--	2.385	--
Kredi Kayıt Bürosu AŞ	--	--	--	--	5	--
Bankalararası Kart Merkezi AŞ	--	--	4.000	--	230	--
Total	**--**	**2.220**	**25.900**	**--**	**2.620**	**--**

(Currency – In thousands of Turkish lira ("TL"))

33. Other operating income

	2016	2015
Reversal from prior years' provision	178.936	87.940
Gain on sale of property and equipment	129.232	66.797
Rent income	51.930	23.200
Other	62.176	107.199
Total	**422.274**	**285.136**

34. Other operating expenses

	2016	2015
Staff costs:		
Personnel expenses	*1.895.986*	*1.645.072*
Retirement pay provision	*83.672*	*67.123*
Administrative expenses	1.305.467	1.130.048
Depreciation and amortization expenses	228.131	146.850
Saving deposit insurance fund expenses	185.561	158.744
Taxes, duties, charges and premium expenses	173.476	149.107
Service expenses	25.977	25.383
Provision expense for lawsuits	6.027	5.752
Other	95.751	292.039
Total	**4.000.048**	**3.620.118**

35. Fees and commission income and expenses

	2016	2015
Fees and commission income		
Banking	1.713.431	1.495.467
Brokerage	26.708	26.717
Total	**1.740.139**	**1.522.184**
Fees and commission expenses		
Banking	(501.024)	(427.488)
Brokerage	(1.012)	(762)
Total	**(502.036)**	**(428.250)**

(Currency – In thousands of Turkish lira ("TL"))

36. Additional cash flow information

	31 December 2016	31 December 2015
Cash on hand	1.543.097	1.258.794
Due from banks		
(with original maturity of less than 3 months)	1.936.974	2.615.809
Money market placements	1.072.397	53.874
Bank blockage balance [1]	(290.080)	(224.140)
Unrestricted balances with Central Bank	11.268.177	5.151.550
Other liquid assets	32	15
Cash and cash equivalents in the statement of cash flows	**15.530.597**	**8.855.902**

[1] Blocked accounts for technical reserves of Halk Hayat ve Emeklilik AŞ amounting to TL 248.138 (31 December 2015: TL 200.999) and of Halk Sigorta AŞ amounting to TL 41.942 (31 December 2015: TL 23.141), which are given as collateral to under secretaria of Treasury of Republic of Turkey.

The reserve deposits with Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

37. 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	40.118.905	30.866.677
Letters of credit	4.019.100	5.016.951
Acceptance credits	2.825.466	3.273.781
Other	914.248	879.817
Total non-cash loans	**47.877.719**	**40.037.226**
Credit card limit commitments	10.824.073	11.181.001
Other commitments	12.921.296	9.974.847
Total	**71.623.088**	**61.193.074**

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 financial statements.

The Group transferred all investment funds to Halk Portföy Yönetimi AŞ, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of 8 funds.

37. Commitments and contingencies (continued)

Letters of guarantee given to BIST and Borsa Istanbul Precious Metals and Diamond Market

As of 31 December 2016, according to the general requirements of the BIST, letters of guarantee amounting to TL 185.000 (31 December 2015: TL 65.000) was obtained from various local banks and were provided to BIST for bond and stock market transactions by the Group.

Litigation

In the normal course of its operations, the Group can constantly be faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

Other

579 branch premises of the Bank are lease holder under operational leases. The lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

The Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Group. In the opinion of management no provision is necessary for this remote contingency.

38. Subsequent events

The Parent Bank’s ownership which belonged to the Turkish Privatization Administration is decided to be transferred to the Turkish Wealth Fund with its paid-in capital of 51,11% and the share of TRY 638.826 after necessary authorization and being taken out from the scope and program of the Administration by The Privatization High Council.