Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

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

20 February 2017

This report contains the "Independent Auditors' Audit Report" comprising 5 pages and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 80 pages.

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Türkiye Garanti Bankası A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Türkiye Garanti Bankası A.Ş. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Subsequent to the reversal of TL 42,000 thousands in the current period, the accompanying consolidated financial statements include a general reserve amounting to TL 300,000 thousands as of the balance sheet date, provided by the Bank management in prior periods in line with the conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions.

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 Consolidated 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 (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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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 year. 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.

Key Audit Matter	How the matter was addressed in the audit
Allowance for probable losses on corporate and commercial loans At 31 December 2016, gross loans and advances to customers were TL 214,235,785 thousands against which loan allowance for impairment of TL 8,246,992 thousands were recorded ending with a net carrying amount of TL 205,988,793 thousands. The details are disclosed in Note 7 and Note 26 of the consolidated financial statements. For specific allowances, a management decision and judgement is required to determine when an impairment event has occurred and a necessary classification should be done. So there is a risk of misstatement in the calculation of the allowance related to the classification of performing / non-performing loans in accordance with IAS 39. Furthermore, the specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivables to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value using the loans' original effective interest rates which requires management's significant judgement to exercise. Portfolio basis (collective) allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Because of the significance of these judgements and the size of loans and advances, the audit of allowance for probable losses on corporate and commercial loans is a key area of focus. Furthermore there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on corporate and commercial loans (specific and collective) in accordance with IAS 39 in the IFRS financial statements.	We reviewed the provisioning methodology implemented by the Group. We understood and tested the key controls over the classification and provisioning methodology such as; system based and manual controls over the timely recognition of impaired loans, controls over the impairment calculation models including data inputs, controls over cash flow estimates and finally governance controls which includes the management meetings for the approval process of allowance for probable losses on loans. We performed a loan review process by testing a sample of loans to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. 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 allowances calculated on a collective basis we tested the underlying models. We also tested the appropriateness and accuracy of the inputs to those models, such as probability of default and loss given default rates, and where available, compared data and assumptions made to external benchmarks. Finally, we understood and tested the controls over related disclosures.

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Key Audit Matter	How the matter was addressed in the audit
IT Audit The Group is dependent on the IT-infrastructure for the continuity of their operations, and business innovation is linked, and the demand for technology-enabled business services is rapidly growing in the Bank and its subsidiaries. Controls over reliability and continuity of the electronic data processing are within the scope of the information systems internal controls audit. The reliance on information systems within the Group means that the controls over access rights, continuity of systems, privacy and integrity of the electronic data are critical and found to be a key area of focus.	We understood and tested the Group's controls over information systems as part of our audit procedures. Our audit procedures include all layers that the data is transmitted, which are databases, operating systems, applications, and network. Tested information systems controls are categorized in the following areas: • Manage security • Manage changes • Manage operations We selected high-risk areas as, database logging and change management control activities, to prevent and detect whether accesses to financial data had been identified in a timely manner. We tested the access and logging controls underlying all application which have direct or indirect impacts on financial data generation. Automated controls and integration controls are tested to underly and detect changes and access in the process of financial data generation. We also tested the appropriateness and accuracy of the information produced by the entity and information used in controls reports as inputs to our controls and outputs generated by the IT components. Finally, we understood and tested the controls over database, network, application and operating system layers of applications.

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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Bank's set of accounts for the period from 1 January 2016 to 31 December 2016 does not comply with TCC and the provisions of the Bank's articles of association in relation to financial reporting.

In accordance with paragraph four of Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The engagement partner on the audit resulting in this independent auditor's report is Müjde Şehsuvaroğlu.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Müjde Şehsuvaroğlu
Partner

İstanbul, 20 February 2017

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Financial Position
At 31 December 2016

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2016	31 December 2015
Assets			
Cash and balances with central banks	*4*	11,601,263	6,802,108
Financial assets at fair value through profit or loss	*5*	1,086,299	660,193
Loans and advances to banks	*6*	15,281,197	14,378,087
Loans and advances to customers	*7,23*	205,988,793	175,681,692
Other assets	*9*	21,127,788	25,779,200
Investment securities	*10,22,23*	47,092,951	46,072,823
Investments in equity participations	*11*	39,954	41,216
Tangible and intangible assets	*12*	5,210,737	4,376,178
Goodwill, net	*13*	32,948	32,948
Deferred tax asset	*20*	856,597	1,013,552
Total Assets		**308,318,527**	**274,837,997**
Liabilities			
Deposits from banks	*14*	4,487,946	6,960,181
Deposits from customers	*15*	174,155,645	149,154,274
Obligations under repurchase agreements and money market fundings	*16*	11,230,193	16,567,796
Loans and advances from banks and other institutions	*17*	47,327,944	39,959,934
Bonds payable	*18*	17,846,340	15,511,597
Subordinated liabilities	*19*	-	159,792
Current tax liability	*20*	120,542	376,779
Deferred tax liability	*20*	23,315	19,512
Other liabilities, accrued expenses and provisions	*21*	16,688,646	14,122,442
Total Liabilities		**271,880,571**	**242,832,307**
Equity attributable to owners of the bank			
Share capital	*22*	5,146,371	5,146,371
Share premium	*22*	11,880	11,880
Unrealised gains/(losses) on available-for-sale assets	*10,22*	(543,775)	(283,792)
Hedging reserve	*22*	(426,418)	(241,097)
Actuarial gain/(loss)	*22*	(104,510)	(76,718)
Revaluation surplus on tangible assets	*22*	1,511,483	1,590,481
Translation reserve	*22*	1,149,369	696,557
Legal reserves	*22*	1,275,230	1,229,498
Retained earnings	*22*	28,150,518	23,705,893
		36,170,148	**31,779,073**
Non-controlling interests	*22*	**267,808**	**226,617**
Total Equity		**36,437,956**	**32,005,690**
Total Liabilities and Equity		**308,318,527**	**274,837,997**
Commitments and Contingencies	*24*		

The notes on pages 5 to 80 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Comprehensive Income
For The Year Ended 31 December 2016

(Currency: Thousands of Turkish Lira (TL))

	Notes	2016	Restated 2015
Statement of Income:			
Interest income:-			
Interest on loans		17,923,941	14,586,832
Interest on securities		3,695,075	3,613,195
Interest on deposits at banks		470,009	274,540
Interest on lease business		433,225	397,158
Others		89,469	72,311
		22,611,719	18,944,036
Interest expense:-			
Interest on saving, commercial and public deposits		(6,716,059)	(5,655,220)
Interest on borrowings, obligations under repurchase agreements,money market and swap fundings		(3,409,375)	(3,078,052)
Interest on bonds payable		(1,104,002)	(942,192)
Interest on bank deposits		(280,507)	(170,616)
Interest on subordinated liabilities		(3,126)	(5,776)
Others		(18,761)	(13,744)
		(11,531,830)	(9,865,600)
Net interest income before provisions for loans and other credit risks		**11,079,889**	**9,078,436**
Provisions for loans and other credit risks, net	*5,6,7,8,10, 21*	**(2,445,570)**	**(1,819,109)**
Net interest income after provisions for loans and other credit risks		**8,634,319**	**7,259,327**
Fee and commission income		4,211,091	3,653,823
Fee and commission expense		(1,047,762)	(935,333)
Net fee and commission income	*28*	**3,163,329**	**2,718,490**
Trading gains, net	*29*	606,439	-
Premium income from insurance business		554,210	454,908
Gain on sale of assets	*33*	445,258	87,156
Foreign exchange gains, net		-	880,370
Other operating income	*30*	206,648	220,738
Other operating income		**1,812,555**	**1,643,172**
Total operating Income		**13,610,203**	**11,620,989**
Salaries and wages		(2,141,196)	(1,881,216)
Employee benefits	*21*	(901,801)	(763,730)
Credit card rewards and promotion expenses		(796,256)	(754,968)
Rent expenses		(385,225)	(340,701)
Depreciation and amortization	*9, 12*	(344,363)	(285,994)
Taxes and duties other than on income		(263,461)	(257,942)
Foreign exchange losses, net		(235,417)	-
Impairment losses, net	*9,11,12,13,21*	(226,411)	(41,573)
Communication expenses		(211,062)	(197,841)
Trading losses, net	*29*	-	(581,273)
Other operating expenses	*31*	(1,765,776)	(1,754,422)
Total operating expenses		**(7,270,968)**	**(6,859,660)**
Income before tax		**6,339,235**	**4,761,329**
Taxation charge	*20*	(1,287,509)	(953,909)
Net income for the period		**5,051,726**	**3,807,420**
Other Comprehensive Income:			
(items that may be reclassified subsequently to statement of income)			
Newly consolidated affiliates	*11*	(9,974)	-
Changes resulted from disposal of assets	*27*	(26,671)	-
Foreign currency translation differences for foreign operations	*22*	410,778	401,340
Fair value reserves (available-for-sale financial assets):			
Net change in fair values	*22*	(6,783)	(332,495)
Net amount transferred to income	*22*	(214,415)	(109,041)
Cash flow hedges:			
Effective portion of changes in fair value	*22*	57,197	(20,494)
Net amount transferred to income	*22*	(97,937)	67,356
Net investment hedge for foreign operations	*22*	(144,366)	(96,715)
Revaluation surplus on tangible assets		8,751	1,590,627
(items that cannot be reclassified subsequently to statement of income)			
Actuarial gain/(loss) related to employee benefits			
Effect of changes in actuarial assumptions	*21*	(27,830)	(23,528)
Change in measurement of plan liabilities arising from passage of time	*21*	-	-
Other comprehensive income for the period, net of tax		**(51,250)**	**1,477,050**
Total Comprehensive Income for the Period		**5,000,476**	**5,284,470**
Net income attributable to:			
Equity holders of the Bank		5,009,403	3,773,207
Non-controlling interests		42,323	34,213
		5,051,726	**3,807,420**
Total comprehensive income attributable to:			
Equity holders of the Bank		4,958,075	5,250,252
Non-controlling interests		42,401	34,218
		5,000,476	**5,284,470**
Weighted average number of shares with a face value of Kr 1 each	*22*	**420 billions**	**420 billions**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		**1.193**	**0.898**

The notes on pages 5 to 80 are integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Changes in Equity
For The Year Ended 31 December 2016

(Currency: Thousands of Turkish Lira (TL))

	Share Capital	Share Premium	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Actuarial Gain/(Loss)	Revaluation Surplus on Tangible Assets	Retained Earnings	Non-Controlling Interests	Total Equity
Restated balances at 31 December 2014	**5,146,371**	**11,880**	**88,631**	**(191,244)**	**367,064**	**1,182,824**	**(53,170)**	**-**	**20,543,485**	**193,733**	**27,289,574**
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	2,875	-	-	-	-	2,875
Transfer to legal reserves	-	-	-	-	-	43,799	-	-	(43,799)	-	-
Dividends paid	-	-	-	-	-	-	-	-	(567,000)	(1,354)	(568,354)
Net unrealised market value losses from available-for-sale portfolio	-	-	(332,500)	-	-	-	-	-	-	5	(332,495)
Net gains on available-for-sale assets transferred to income statement at disposal	-	-	(109,041)	-	-	-	-	-	-	-	(109,041)
Foreign currency translation differences for foreign operations	-	-	69,118	-	137,539	-	-	(146)	-	-	206,511
Net fair value gains from cash flow hedges	-	-	-	46,862	-	-	-	-	-	-	46,862
Net investment hedge for foreign operations	-	-	-	(96,715)	191,954	-	-	-	-	-	95,239
Net change in actuarial gain/(loss) related to employee benefits	-	-	-	-	-	-	(23,548)			20	(23,528)
Revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	1,590,627	-	-	1,590,627
Net income for the year	-	-	-	-	-	-	-	-	3,773,207	34,213	3,807,420
Balances at 31 December 2015	**5,146,371**	**11,880**	**(283,792)**	**(241,097)**	**696,557**	**1,229,498**	**(76,718)**	**1,590,481**	**23,705,893**	**226,617**	**32,005,690**
Newly consolidated affiliates	-	-	-	-	-	573	-		(10,692)	145	(9,974)
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	5,107	-		-	-	5,107
Transfer to legal reserves	-	-	-	-	-	43,494	-	-	(43,494)	-	-
Dividends paid	-	-	-	-	-	-	-	-	(567,000)	(1,210)	(568,210)
Net unrealised market value gains/(losses) from available-for-sale portfolio	-	-	(6,754)	-	-	-	-		-	(29)	(6,783)
Net gains on available-for-sale assets transferred to income								-			
statement at disposal	-	-	(214,415)	-	-	-	-	-	-	-	(214,415)
Foreign currency translation differences for foreign operations	-	-	(41,110)	(215)	445,513	-	-	1,483	-	-	405,671
Revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	8,751	-	-	8,751
Net fair value losses from cash flow hedges	-	-	-	(40,740)	-	-	-	-	-	-	(40,740)
Net investment hedge for foreign operations	-	-	-	(144,366)	-	-	-	-	-	-	(144,366)
Net change in actuarial gain/(loss) related to employee benefits	-	-	-	-	-	-	(27,792)	-	-	(38)	(27,830)
Changes resulted from disposal of assets	-	-	2,296	-	7,299	(3,442)	-	(89,232)	56,408	-	(26,671)
Net income for the year	-	-	-	-	-	-	-	-	5,009,403	42,323	5,051,726
								-			
Balances at 31 December 2016	**5,146,371**	**11,880**	**(543,775)**	**(426,418)**	**1,149,369**	**1,275,230**	**(104,510)**	**1,511,483**	**28,150,518**	**267,808**	**36,437,956**

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2016

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2016- 31 December 2016	Restated 1 January 2015- 31 December 2015
Cash flows from operating activities:-			
Interests and commissions received		22,402,177	18,524,981
Interests and commissions paid		(12,452,738)	(9,118,893)
Other operating activities, net		1,193,926	(2,003,558)
Cash payments to employees and suppliers		(6,162,463)	(5,595,612)
		4,980,902	1,806,918
(Increase)/decrease in operating assets:-			
Loans and advances to banks		(1,509,766)	(2,033,799)
Balances with central banks		7,310,613	(510,959)
Financial assets at fair value through profit or loss		(423,569)	423,630
Loans and advances to customers		(27,133,742)	(24,538,726)
Consumer loans		(6,852,905)	(6,041,875)
Other assets		(597,962)	1,060,819
Increase/(decrease) in operating liabilities:-			
Deposits from banks		(2,473,482)	(139,603)
Deposits from customers		24,938,183	22,823,778
Obligations under repurchase agreements and money market fundings		(5,327,765)	4,550,274
Other liabilities		958,603	752,276
Net cash outflows from operating activities before taxes and duties paid		**(6,130,890)**	**(1,847,267)**
Income taxes and other duties paid		**(1,551,703)**	**(1,142,397)**
Net cash outflows from operating activities		**(7,682,593)**	**(2,989,664)**
Cash flows from investing activities:-			
Net decrease/(increase) in investment securities		1,838,635	(1,896,229)
Interest received for investment securities		2,725,854	3,661,472
Dividends received		9,084	5,399
Proceeds from sale of tangible and intangible assets		450,316	259,408
Purchase of tangible and intangible assets		(1,507,303)	(956,452)
Net cash inflows from investing activities		**3,516,586**	**1,073,598**
Cash flows from financing activities:-			
Increase in loans and advances from banks and other institutions, net		5,587,896	2,191,417
Increase in bonds payable, net		2,318,237	1,032,154
(Decrease)/increase in subordinated liabilities, net		(158,355)	18,911
Dividends paid		(568,210)	(568,354)
Net cash inflows from financing activities		**7,179,568**	**2,674,128**
Effect of exchange rate changes		**928,131**	**994,106**
Net increase in cash and cash equivalents		**3,941,692**	**1,752,168**
Cash and cash equivalents at the beginning of the period		11,756,386	10,004,218
Cash and cash equivalents at the end of the period	*2*	**15,698,078**	**11,756,386**

The notes on pages 5 to 80 are an integral part of these consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the year ended 31 December 2016 comprise the Bank, its affiliates (the Affiliates) and their interest in associates.

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 902 domestic branches, nine foreign branches, three representative offices abroad and 57 offices. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Bucharest. The Bank and its affiliates in total have 23,692 employees. The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

(b) Ownership

As of 31 December 2016, group of companies under Banco Bilbao Vizcaya Argentaria SA ("BBVA") that currently owns 39.90% shares of the Bank, is named the BBVA Group (the Group) and it is the main shareholder.

On 22 March 2011, BBVA had acquired; 78.120.000.000 shares of the Bank owned by GE Capital Corporation at a total nominal value of TL 781,200 thousands representing 18.60% ownership, and 26.418.840.000 shares of the Bank owned by Doğuş Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.19% ownership. BBVA, purchasing 24.89% shares of the Bank, had joint control on the Bank's management together with group of companies under Doğuş Holding AŞ (the Doğuş Group).

Subsequently, on 7 April 2011, BBVA had acquired 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank's share capital to 25.01%. Accordingly, BBVA and the Doğuş Group had mutual control on the Bank's management.

Finally, in accordance with the terms of the agreement between BBVA and the Doğuş Group which was previously disclosed on 19 November 2014, the sale of shares representing 14.89% of the share capital of the Bank with a face value of TL 625,380 thousands and 62.538.000.000 shares by the Doğuş Group to BBVA, has been completed on 27 July 2015. Following the acquisition, BBVA's stake in the Bank has reached to 39.90% and BBVA became the main shareholder. The Bank has moved to "Foreign Deposit Banks" category from "Private Deposit Bank" category by the Banking Regulation and Supervision Agency (the "BRSA").

Accordingly, as of balance sheet date, the Doğuş Group's interest in the share capital of the Bank is at 10%.

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the BRSA; Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are authorized for issue by the directors on 30 January 2017.

Significant accounting policies (continued)

(b) Basis of preparation

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

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

The accounting policies set out below have been applied consistently by the Bank and its affiliates to all periods presented in these consolidated financial statements.

(c) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are in Notes 7, 9, 10, 12, 13, 17, 18, 20, 21, 23, 24, 25 and 32.

(d) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

Affiliates

Affiliates are the entities controlled by the Bank. The control exists if and only if;

- 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.
- exposure, or rights, to variable returns from its involvement with the affiliate.
- the ability to use its power over the affiliate to affect the amount of its returns.

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

Associates

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

Significant accounting policies (continued)

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency

Foreign currency transactions

Transactions in the financial statements of the Bank are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to income.

(f) Tangible and intangible assets and related depreciation

Owned assets

The costs of the tangible and intangible assets acquired before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. Such assets acquired after this date are recorded at their historical costs. Accordingly, they are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy *(s)*). As of 1 November 2015, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible and intangible assets instead of cost model in accordance with IAS 16. Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms.

Leased assets

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated

Significant accounting policies (continued)

depreciation (see below) and impairment losses (refer to accounting policy *(s)*). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to income.

Internally generated softwares

As per IAS 38, internally-generated softwares should be recognised as assets if they meet the below listed criterias:

- The technical feasibility of completing the asset so that it will be available for use,

- Availability of the intention to complete and use the asset,

- The ability to use the asset,

- Clarity in probable future economic benefits to be generated from the asset,

- The availability of adequate technical, financial and other resources to complete the development phase and to start using the asset,

- The availability to measure reliably the expenditure attributable to the asset during the development phase.

The directly attributable development costs of asset are included in the the cost of such assets, however the research costs are recognised as expense as incurred.

Subsequent expenditure

Expenditures incurred to replace a component of a tangible and intangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of such assets. All other expenditures are reflected as expense in the statement of income as incurred.

Expenditures for major renewals and improvement of tangible and intangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation

The estimated useful lives and depreciation rates of tangible and intangible assets are as follows. Depreciation method in use was not changed in the current period.

Tangible and intangible assets	***Estimated useful lives (years)***	***Depreciation Rates (%)***
Buildings	50	2
Vaults	50	2
Motor vehicles	5-7	15-20
Other tangible and intangible assets	4-20	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at least once a year, with the effect of any changes in estimate accounted for on a prospective basis.

Investment property

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property. As of 1 November 2015, changing the existing accounting policy, it has been decided to apply fair value model for investment properties instead of cost model in accordance with the IAS 40. Accordingly, for all the investment properties registered in the ledger, a valuation study was performed by independent expertise firms. Fair value changes in investment properties were accounted retrospectively in the income statement for the period they occurred.

Investment properties under fair value model are not depreciated.

Significant accounting policies (continued)

(g) Goodwill

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognized immediately in income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

(h) Financial instruments

Classification

Financial instruments at fair value through profit or loss are those instruments that are principally held for the purpose of short-term profit taking. These include investments, certain loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

The Bank classifies certain loans at their origination dates, as financial assets at fair value through profit or loss in compliance with IAS 39. Financial assets at fair value through profit or loss are initially recorded at cost and measured at fair value in subsequent periods.

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

Available-for-sale assets are financial assets that are not held for trading purposes, provided by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the positive intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

Recognition

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognized on the settlement date at which the Bank and its affiliates become a party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets are recognized in income for the financial assets at fair value through profit or loss and in the other comprehensive income for available for-sale assets.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognized in the statement of financial position on the date they are originated.

Measurement

Financial instruments are initially measured at fair value, including transaction costs.

Significant accounting policies (continued)

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value.

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

Fair value measurement principles

The fair values of financial instruments are based on 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. It is therefore measured with the quoted market prices at the date of the statement of financial position without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in the current market.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the date of the statement of financial position taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair values of trading financial instruments are recognized in income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity until the hedged transaction impacts earnings or the available-for-sale assets are sold or impaired.

Specific instruments

Cash and balances with central banks: Cash and balances with central banks comprise cash balances on hand, cash deposited with the central banks and other cash items. Money market placements are classified in loans and advances to banks.

Investments: Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

Loans and advances to banks and customers: Loans and advances provided by the Bank and its affiliates are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Financial lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Financial lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are stated at fair value at initial recognition. Subsequent to the initial recognition, factoring transactions are accounted for at amortized costs.

Significant accounting policies (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired; the Bank (and/or its affiliates) retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or the Bank (and/or its affiliates) has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the dates they are transferred by the Bank and its affiliates.

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income, the effective portion of changes in the fair value of the derivative are recognized directly in other comprehensive income and presented in hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognized immediately in income.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Significant accounting policies (continued)

Net investment hedge

When a derivative or non-derivative financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in the shareholders' equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in income. The amount recognized in the shareholders' equity is removed and included in the income on disposal of the foreign operation.

The foreign currency risk arising from net investments in foreign operations are hedged with long-term foreign currency borrowings and currency translation differences arising from conversion of foreign investments and foreign currency borrowings into TL are accounted for translation reserve and hedging reserve, respectively, in equity.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

(j) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized in the statement of financial position as the related risks and rewards of such securities are not retained. Borrowed securities are recorded under commitments and contingencies. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers depending on the type of counterparty.

(k) Repurchase and resale agreements over investments

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) 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 recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements and money market fundings", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

(l) Items held in trust

Assets, other than cash deposits, held by the Bank and its affiliates in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not under the ownership of the Bank.

(Currency: Thousands of Turkish Lira (TL))

Significant accounting policies (continued)

(m) Financial guarantees

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

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

(n) Employee benefits

(i) Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Bank has a defined benefit plan ("the Plan") for its employees namely Türkiye Garanti Bankası Anonim Şirketi Emekli ve Yardım Sandığı Vakfı ("the Fund"). The Fund is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all Bank employees entitled to receive such benefits. This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	31 December 2016	
	Employer	***Employee***
	%	*%*
Pension contributions	15.5	10.0
Medical benefit contributions	6.0	5.0

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") (see Note 21) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

a) Pension and medical benefits transferable to SSF

As discussed in Note 21, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund's obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognized until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law"). The pension disclosures set out in Note 21, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

b) Excess benefits not transferable to SSF

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, "*Employee Benefits*". The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that

Significant accounting policies (continued)

employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognized past service costs and the fair value of any plan assets are deducted.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions were directly charged to income in periods before the year 2013. As per the revised IAS 19, the actuarial gains/losses are recognized under shareholders' equity starting from 1 January 2013.

(ii) Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its affiliates are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

Provision is made for the present value of the liability calculated using the projected unit credit method. All actuarial gains and losses were recognized immediately in income in prior periods. As per the revised IAS 19, the actuarial gains/losses are recognized under shareholders' equity starting from 1 January 2013.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

(o) Operating leases

Leases other than finance leases are classified as operating leases.

As lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

As lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) Taxes on income

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position 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

Significant accounting policies (continued)

is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its affiliates. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

An individual consolidated affiliate offsets 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 or where the legal right of offset exists.

Deferred taxes related to fair value remeasurement of available-for-sale assets and cash flow hedges, are charged or credited directly to equity and subsequently recognized in income together with the deferred gains or losses that are realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

(q) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize 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 from a group of similar transactions.

(r) Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(s) Impairment

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset’s recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Loans and receivables and held-to-maturity instruments

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument’s original effective interest rate. Short-term balances are not discounted.

Significant accounting policies (continued)

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value using the loans' original effective interest rates. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through income.

Financial assets remeasured to fair value

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments under investment securities and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in income.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through income.

(t) Income and expense recognition

Interest income and expense

Interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognized 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 recognized 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.

Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, available-for-sale, and from trading derivatives.

Dividend income

Dividend income is recognized in income when the right to receive payment is established.

Significant accounting policies (continued)

Insurance business

Premium income: For short-term insurance contracts, premiums are recognized as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at date of the statement of financial position is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognized as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature ("DPF"), are recognized directly as liabilities.

Unearned premium reserve: Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognized in income in the order that income is recognized over the period of risk.

Claims and provision for "outstanding" claims: Claims are recognized in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end. Incurred but not reported claims ("IBNR") are also provided for under the provision for outstanding claims.

Liability adequacy test: At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to income.

Income generated from pension business: Income arising from asset management and other related services offered by the insurance affiliate of the Bank is recognized 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 insurance 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.

Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the insurance affiliate of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance affiliate 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 Turkish insurance companies.

Significant accounting policies (continued)

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance 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 insurance affiliate from the eligible surplus available to date.

Mathematical provisions are presented under "other liabilities, accrued expenses and provisions" in the accompanying consolidated financial statements.

(u) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered 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 (disposal group) 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.

(v) Segment reporting

An operating segment is a component of the Bank and its affiliates that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(w) New standards and interpretations

New and revised IFRSs applied with no material effect on the consolidated financial statements

- IFRS 14 *Regulatory Deferral Accounts*(1)
- Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint Operations*(1)
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*(1)
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*(1)
- Annual Improvements 2012-2014 Cycle *IFRS 5, IFRS 7, IAS 19, IAS 34*(1)
- Amendments to IAS 1 *Disclosure Initiative*(1)
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*(1)

(1) Effective for annual periods beginning on or after 1 January 2016.

New and revised IFRSs in issue but not yet effective

- Amendments to IFRS 10 and IAS 28 *Sale of Contribution of Assets between an Investor and its Associate or Joint Venture*(1)
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*(1)
- Amendments to IAS 7 *Disclosure Initiative*(1)
- IFRS 9 *Financial Instruments*(2)
- IFRS 15 *Revenue from Contracts with Customers*(2)
- IFRS 16 *Leases*(3)
- Amendments to IFRS 15 *Revenue from Contracts with Customers*(1)
- Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*(2)
- Amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*(2)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration(2)
- Amendments to IAS 40 *Transfers of Investment Property*(2)
- Annual Improvements to IFRS Standards 2014–2016 Cycle *IFRS 1*(2)*, IFRS 12*(1)*, IAS 28*(2)

(1) Effective for annual periods beginning on or after 1 January 2017.
(2) Effective for annual periods beginning on or after 1 January 2018.
(3) Effective for annual periods beginning on or after 1 January 2019.

The Group evaluates the effects of these standarts, amendments and improvements on the consolidate financial statements.

(Currency: Thousands of Turkish Lira (TL))

Significant accounting policies (continued)

(x) Restatements in prior years' consolidated financial statements

As of 31 December 2016, in accordance with IAS 1 "Presentation of Financial Statements", interest portion of derivative transactions performed for margin management purposes are reclassified from "trading gains/(losses), net" to "interest on borrowings, obligations under repurchase agreements and money market fundings" for a better presentation.

As of 31 December 2016 and 2015, the existing commitment contracts for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments are reviewed as per the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and certain contracts are excluded.

Due to the aforementioned accounting policy change and the revision, the accompanying prior years' consolidated financial statements were restated as per IAS 8.

The effects of the adjusting entries on the prior period's consolidated financial statements are as follows:

31 December 2015 - Consolidated Statement of Income	*Reported*	*Correction*	*Restated*
Interest on Borrowings, Obligations Under Repurchase Agreements and Money Market and Swap Fundings	(1,926,483)	(1,151,569)	(3,078,052)
Trading Losses, net	(1,732,842)	1,151,569	(581,273)
Other Operating Income	281,581	(60,843)	220,738
Salaries and wages	(2,128,603)	247,387	(1,881,216)
Employee benefits	(516,343)	(247,387)	(763,730)
Depreciation and amortization	(346,837)	60,843	(285,994)

31 December 2015 - Consolidated Statement of Cash Flows	*Reported*	*Correction*	*Restated*
Interests and commissions paid	(9,911,052)	792,159	(9,118,893)
Other operating activities, net	1,272,242	731,316	(2,003,558)
Purchase of tangible and intangible assets	(895,609)	(60,843)	(956,452)

31 December 2015 - Commitments and Contingencies	*Reported*	*Correction*	*Restated*
Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments	45,969,931	(5,118,367)	40,851,564

Index for the notes to the consolidated financial statements:

Note description

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in the Netherlands, Romania, Turkish Republic of Northern Cyprus, Malta, Luxembourg and Germany. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	2016				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	189,903,700	272,835,455	203,383,060	40,801,567	1,315,715
England	1,062,951	9,072,767	16,311,937	314,631	-
Romania	5,587,859	7,080,229	4,388,663	399,047	20,774
Netherlands	2,521,119	5,616,057	5,659,752	170,359	10,519
Germany	766,360	2,341,780	10,730,002	216,529	1,072
Spain	34,950	1,765,445	580,290	319,132	-
Malta	1,386,700	1,514,767	395,215	110,940	-
USA	427,222	1,308,818	5,858,653	3,556,659	-
Switzerland	1,238,938	1,305,863	6,068,590	5,211,579	-
Cyprus	624,418	1,147,855	994,053	62,213	-
Luxembourg	295,254	879,344	1,804,529	597	-
Singapore	198,102	586,273	667,495	697,513	-
Belgium	304,809	381,992	742,087	28,220	-
France	103,956	369,404	2,149,448	314,079	-
Sweden	337,157	343,924	107,080	123,767	-
Russia	10,175	227,648	137,497	6,707	-
United Arabian Emirates	200,373	211,182	3,309,970	1,657,662	-
Austria	141,621	143,541	334,312	15,398	-
Italy	26,780	52,572	738,325	470,828	-
Ireland	52,078	52,087	405,469	10,178	-
China	16,081	16,472	912,480	311,129	-
Canada	6,191	10,530	680,685	101	-
Japan	156	7,645	67,303	474,618	-
Ukraine	7,401	7,552	81,170	29,994	-
Azerbaijan	4,946	4,967	1,418,411	289	-
Thailand	20	208	433,228	-	-
Qatar	59	59	41,007	4,675	-
Others	729,417	1,034,091	3,479,860	777,069	-
	205,988,793	308,318,527	271,880,571	56,085,480	1,348,080

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

	2015				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	163,802,800	244,302,162	175,982,568	35,542,769	866,801
England	885,866	10,162,400	16,984,801	1,365,027	-
Romania	4,590,331	6,061,830	2,990,211	351,800	10,159
Netherlands	1,002,887	4,149,594	6,011,617	324,905	7,170
USA	322,450	1,681,397	6,879,881	3,489,723	-
Malta	1,163,962	1,269,128	437,159	51,503	-
Germany	422,700	1,147,648	8,710,961	100,817	550
Luxembourg	394,451	908,219	2,091,847	520	-
Russia	107,750	821,392	354,008	16,780	118
Switzerland	745,620	779,928	7,420,042	4,289,798	-
France	86,802	563,091	1,924,134	372,976	-
Cyprus	159,850	470,060	806,344	53,598	-
Italy	359,859	374,633	739,145	510,323	-
Belgium	243,311	294,299	690,415	4,380	-
United Arabian Emirates	232,845	238,316	3,032,065	932,869	-
Singapore	156,924	214,445	138,482	26,856	-
Spain	51,246	166,708	388,299	546,365	-
Sweden	133,433	134,780	90,609	106,556	
Azerbaijan	54,593	54,684	1,166,836	302	-
Ukraine	37,091	37,132	67,722	4,606	-
Austria	18,530	19,045	408,949	69,565	-
Qatar	-	14,265	173,868	474	-
Japan	3,726	8,574	146,354	242,152	-
Ireland	5,852	6,206	569,359	27	-
Canada	2,300	5,090	339,645	637	-
Thailand	-	377	1,146,762	626	-
China	-	32	20,433	296,055	-
Others	696,513	952,562	3,119,791	230,713	-
	175,681,692	274,837,997	242,832,307	48,932,722	884,798

Total geographic sector risk concentrations of the net income are presented in the table below:

	2016	2015
Turkey	4,653,941	3,266,814
Malta	299,361	409,204
Netherlands	30,556	23,054
Romania	20,719	68,608
Luxembourg	18,586	35,310
Others	28,563	4,430
	5,051,726	3,807,420

Türkiye Garanti Bankası AŞ and Its Affiliates
Notes to Consolidated Financial Statements
As of and for the Year Ended 31 December 2016
(Currency: Thousands of Turkish Lira (TL))

1 **Segment reporting** (continued)

1.2 Business segments

The segments are identified on the basis used by the Group's top management to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

2016	Retail Banking	Commercial, Corporate & SME Banking	Other Operations	Total Banking	Leasing	Insurance	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating income	5,323,297	3,226,662	3,789,339	12,339,298	171,554	598,624	103,289	264,527	230,650	13,707,942	(97,739)	13,610,203
Operating expenses	(2,630,327)	(1,874,850)	(2,045,147)	(6,550,324)	(46,647)	(289,683)	(79,481)	(183,891)	(199,922)	(7,349,948)	78,980	(7,270,968)
Income from operations	**2,692,970**	**1,351,812**	**1,744,192**	**5,788,974**	**124,907**	**308,941**	**23,808**	**80,636**	**30,728**	**6,357,994**	**(18,759)**	**6,339,235**
Taxation charge	-	-	(1,172,270)	(1,172,270)	(23,719)	(63,001)	(4,092)	(10,572)	(15,294)	(1,288,948)	1,439	(1,287,509)
Net income for the period	**2,692,970**	**1,351,812**	**571,922**	**4,616,704**	**101,188**	**245,940**	**19,716**	**70,064**	**15,434**	**5,069,046**	**(17,320)**	**5,051,726**
Segment assets	61,499,413	141,811,307	89,426,253	292,736,973	5,931,010	1,687,029	2,869,394	553,427	234,537	304,012,370	(1,834,079)	302,178,291
Investments in equity participations	-	-	429,672	429,672	10,571	275	-	2,887	7	443,412	(403,458)	39,954
Other assets	-	-	4,917,497	4,917,497	61,885	42,713	30,058	25,797	1,028,414	6,106,364	(6,082)	6,100,282
Total assets	**61,499,413**	**141,811,307**	**94,773,422**	**298,084,142**	**6,003,466**	**1,730,017**	**2,899,452**	**582,111**	**1,262,958**	**310,562,146**	**(2,243,619)**	**308,318,527**
Segment liabilities	116,243,213	67,955,273	79,576,742	263,775,228	4,995,037	404,887	2,713,999	536,950	1,140,884	273,566,985	(1,686,414)	271,880,571
Total equity	-	-	34,308,914	34,308,914	1,008,429	1,325,130	185,453	45,161	122,074	36,995,161	(557,205)	36,437,956
Total liabilities and equity	**116,243,213**	**67,955,273**	**113,885,656**	**298,084,142**	**6,003,466**	**1,730,017**	**2,899,452**	**582,111**	**1,262,958**	**310,562,146**	**(2,243,619)**	**308,318,527**

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

2015	*Retail Banking*	*Commercial Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	3,839,803	3,772,466	2,999,280	10,611,549	199,033	468,504	98,941	153,114	195,344	11,726,485	(105,496)	11,620,989
Operating expenses	(4,031,217)	(1,703,354)	(608,015)	(6,342,586)	(52,373)	(225,037)	(67,117)	(117,974)	(149,623)	(6,954,710)	95,050	(6,859,660)
Income from operations	**(191,414)**	**2,069,112**	**2,391,265**	**4,268,963**	**146,660**	**243,467**	**31,824**	**35,140**	**45,721**	**4,771,775**	**(10,446)**	**4,761,329**
Taxation charge	-	-	(849,714)	(849,714)	(29,018)	(49,022)	(6,394)	(8,448)	(11,291)	(953,887)	(22)	(953,909)
Net income for the period	**(191,414)**	**2,069,112**	**1,541,551**	**3,419,249**	**117,642**	**194,445**	**25,430**	**26,692**	**34,430**	**3,817,888**	**(10,468)**	**3,807,420**
Segment assets	54,964,113	116,696,020	89,330,954	260,991,087	5,157,111	1,368,951	2,948,684	409,650	175,382	271,050,865	(1,676,762)	269,374,103
Investments in equity participations	-	-	431,287	431,287	10,490	275	-	2,516	112	444,680	(403,464)	41,216
Other assets	-	-	4,468,275	4,468,275	127,992	38,167	19,470	21,353	716,724	5,391,981	30,697	5,422,678
Total assets	**54,964,113**	**116,696,020**	**94,230,516**	**265,890,649**	**5,295,593**	**1,407,393**	**2,968,154**	**433,519**	**892,218**	**276,887,526**	**(2,049,529)**	**274,837,997**
Segment liabilities	99,097,088	58,183,209	78,507,506	235,787,803	4,361,014	327,959	2,802,410	398,850	759,637	244,437,673	(1,605,366)	242,832,307
Total equity	-	-	30,102,846	30,102,846	934,579	1,079,434	165,744	34,669	132,581	32,449,853	(444,163)	32,005,690
Total liabilities and equity	**99,097,088**	**58,183,209**	**108,610,352**	**265,890,649**	**5,295,593**	**1,407,393**	**2,968,154**	**433,519**	**892,218**	**276,887,526**	**(2,049,529)**	**274,837,997**

(Currency: Thousands of Turkish Lira (TL))

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 December 2016 and 2015, included in the accompanying consolidated statements of cash flows are as follows:

	2016	2015
Cash at branches	2,205,903	2,199,132
Unrestricted balances with central banks	6,922,425	4,602,976
Placements at money markets	373,860	80,360
Loans and advances to banks with original maturity periods of less than three months	6,195,890	4,873,918
	15,698,078	11,756,386

3 Related party disclosures

For the purpose of this report, the shareholders either controlling or has a significant influence over the Bank, BBVA and Doğuş Holding AŞ, respectively, and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated affiliates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

3.1 Outstanding balances

	2016	2015
Statement of financial position		
Loans and advances to banks	1,660,715	57,582
Loans and advances to customers	2,328,769	2,194,160
Miscellaneous receivables	949	1,220
Deposits from banks	445,557	288,554
Deposits from customers	654,701	613,522
Loans and advances from banks and other institutions	-	12,669
Miscellaneous payables	147,667	70,457
Commitments and contingencies		
Non-cash loans	1,052,365	1,267,542
Derivatives	14,653,818	16,416,097

3.2 Transactions

	2016	2015
Interest, fee and commission income	139,855	133,441
Interest, fee and commission expense	3,737	22,465
Trading and foreign exchange gains/(losses), net	(394,394)	55,469
Other operating income	8,878	11,788
Other operating expenses	41,055	84,107

(Currency: Thousands of Turkish Lira (TL))

3 Related party disclosures (continued)

In 2016, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 1%-10% and 1%-3% (2015: 2%-13% and 1%-2%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 11%-20% and 7%-11%, respectively (2015: 10%-20% and 5%-13%). Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

No impairment losses or specific allowances have been recorded against balances outstanding during the period with related parties as of 31 December 2016 (2015: nil).

Key management personnel compensation for the year ended 31 December 2016 amounted TL 149,365 thousands (2015: TL 190,801 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 101,032 thousands (2015: TL 120,553 thousands) and of its affiliates amounted TL 48,333 thousands (2015: TL 70,248 thousands).

4 Cash and balances with central banks

	2016	*2015*
Cash at branches	2,205,903	2,199,132
Balances with central banks excluding reserve deposits	9,395,360	4,602,976
	11,601,263	6,802,108

5 Financial assets at fair value through profit or loss

	2016				*2015*
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments held at fair value:					
Gold	-	876,298	-	-	244,556
Investment fund	-	44,753	-	-	32,262
Government bonds in TL	40,372	40,827	3-11	2026	85,525
Eurobonds	28,757	29,492	3-12	2045	21,973
Bonds issued by financial institutions	24,199	23,775	4-13	2022	36,531
Government bonds-floating *(a)*	22,842	23,024	9-11	2020	7,722
Bonds issued by corporations	5,278	5,509	8-15	2019	3,335
Government bonds indexed to CPI	3,616	4,725	1-4	2025	14,499
Discounted government bonds in TL	5,021	4,677	8-9	2025	1,519
		1,053,080			447,922
Loans held at fair value		-			198,118
Equity and other non-fixed income instruments:					
Listed shares		33,219			14,153
Total financial assets at fair value through profit or loss		1,086,299			660,193

(a) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

(Currency: Thousands of Turkish Lira (TL))

5 Financial assets at fair value through profit or loss (continued)

Income from debt and other instruments held at fair value is reflected in the consolidated statement of income as interest on securities. Gains and losses arising from trading of financial assets at fair value through profit or loss are recorded in net trading gains/(losses).

There is no impairment loss for the financial assets at fair value throught profit or loss as of 31 December 2016 (2015: TL 6 thousands).

As of 31 December 2016, financial assets at fair value through profit or loss amounting to TL 13,777 thousands are blocked against asset management operations and securitizations (2015: TL 11,930 thousands) (refer to Note 10).

As of 31 December 2016, there are TL 3,983 thousands of securities pledged under repurchase agreements with customers (2015: TL 8,814 thousands).

6 Loans and advances to banks

	2016			*2015*		
	TL	***Foreign Currency***	***Total***	***TL***	***Foreign Currency***	***Total***
Loans and advances-demand						
Domestic banks	2,635	5,074	7,709	1,382	3,218	4,600
Foreign banks	8,354	4,699,323	4,707,677	10,671	4,139,860	4,150,531
	10,989	4,704,397	4,715,386	12,053	4,143,078	4,155,131
Loans and advances-time						
Domestic banks	874,764	1,113,205	1,987,969	952,644	1,499,003	2,451,647
Foreign banks	356,822	7,796,179	8,153,001	11,905	7,644,493	7,656,398
	1,231,586	8,909,384	10,140,970	964,549	9,143,496	10,108,045
Placements at money markets	22,170	351,690	373,860	18,710	61,650	80,360
Income accrual on loans and advances to banks	17,043	33,938	50,981	15,342	19,209	34,551
Total loans and advances to banks	1,281,788	13,999,409	15,281,197	1,010,654	13,367,433	14,378,087
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	1,281,788	13,999,409	15,281,197	1,010,654	13,367,433	14,378,087

As of 31 December 2016, majority of loans and advances-time are short-term with interest rates ranging between (0.35)%-5% per annum for foreign currency time placements and 1%-16% per annum for TL time placements (2015: 1%-8% and 1%-15%, respectively).

As of 31 December 2016, loans and advances at domestic and foreign banks include blocked accounts of TL 7,786,414 (2015: TL 7,694,176 thousands) held against securitizations, fundings and insurance business.

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	2016	2015
Consumer loans	60,932,999	54,080,094
Mortgage loans	*22,544,347*	*19,341,743*
Credit card receivables	*16,125,229*	*14,981,373*
Auto loans	*2,176,872*	*1,553,478*
General purpose and other consumer loans	*20,086,551*	*18,203,500*
Energy	23,686,229	18,866,417
Service sector	16,221,852	14,005,954
Construction	10,319,625	9,008,359
Transportation and logistics	9,217,292	5,616,571
Financial institutions	8,534,641	7,886,038
Food	8,409,563	7,137,335
Textile	8,122,466	6,433,026
Metal and metal products	6,283,548	5,442,433
Transportation vehicles and sub-industry	6,227,605	7,212,974
Tourism	5,451,790	4,919,498
Data processing	4,948,330	4,168,324
Chemistry and chemical products	4,182,785	3,309,528
Agriculture and stockbreeding	2,557,898	2,177,618
Durable consumption	2,524,186	2,325,288
Machinery and equipment	2,345,946	1,971,079
Mining	2,326,281	1,326,302
Stone, rock and related products	2,101,354	1,724,809
Paper and paper products	1,422,039	1,037,931
Electronic, optical and medical equipment	1,257,451	1,054,627
Plastic products	869,299	787,752
Others	8,150,586	6,390,182
Total performing loans	196,093,765	166,882,139
Financial lease receivables, net of unearned income (Note 8)	5,339,815	4,857,333
Factoring receivables	2,806,998	2,823,833
Income accrual on loans, factoring and lease receivables	3,084,374	2,244,728
Non-performing loans, factoring and lease receivables	6,910,833	6,090,168
Allowance for probable losses from loans, factoring and lease receivables	(8,246,992)	(7,216,509)
Loans and advances to customers	205,988,793	175,681,692

As of 31 December 2016, interest rates on loans granted to customers range between 1%-31% (2015: 1%-28%) per annum for the foreign currency loans and 1%-27% (2015: 1%-33%) per annum for the TL loans.

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The provision for probable losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 3,036,025 thousands (2015: TL 1,759,922 thousands). Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	2016	2015
Balance at the beginning of the period	7,216,509	5,657,900
Write-offs	(1,676,257)	(433,073)
Recoveries and reversals	(1,127,778)	(904,159)
Provision for the period	3,834,518	2,895,841
Balance at the end of the period	8,246,992	7,216,509

A part of non-performing receivables of the Bank and its consolidated affiliates amounting to TL 1,310,763 thousands (2015: TL 180,791 thousands) was sold for a consideration of TL 129,836 thousands in the current period (2015: TL 34,443 thousands). Considering the related provision of TL 1,258,978 thousands (2015: TL 172,751 thousands) made in the financial statements in the prior periods, a gain of TL 78,025 thousands (2015: TL 26,357 thousands) is recognized under “gains on sale of assets” in the statement of income. The revenues earned from subsequent collections of the sold receivables in prior period, amounting to TL 89 thousands (2015: TL 482 thousands) is recognized in the income statement under “gains on sale of assets” in the current period.

8 Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	2016	2015
Financial lease receivables, net of unearned income (Note 7)	5,339,815	4,857,333
Add: non-performing lease receivables	713,985	346,924
Less: allowance for probable losses on lease receivable	(299,302)	(186,851)
	5,754,498	5,017,406
Income accrual on lease receivables	28,920	28,719
Analysis of net financial lease receivables		
Due within 1 year	2,676,972	2,163,017
Due between 1 and 5 years	3,420,644	3,190,621
Due after 5 years	362,229	365,799
Financial lease receivables, gross	6,459,845	5,719,437
Unearned income	(705,347)	(702,031)
Financial lease receivables, net	5,754,498	5,017,406
Analysis of net financial lease receivables		
Due within 1 year	2,365,722	1,853,824
Due between 1 and 5 years	3,048,521	2,820,654
Due after 5 years	340,255	342,928
Financial lease receivables, net	5,754,498	5,017,406

(Currency: Thousands of Turkish Lira (TL))

9 Other assets

	2016	2015
Reserve deposits at central banks	13,837,352	21,094,712
Derivative financial assets	4,280,427	2,407,675
Tangible assets held for sale	605,015	366,365
Prepaid expenses, insurance claims and similar items	520,091	445,882
Miscellaneous receivables	401,743	285,235
Investment properties	320,426	307,095
Option premium receivables	294,267	500,359
Balances with clearing house	217,752	39,823
Prepaid taxes and taxes/funds to be refunded	107,652	86,350
Insurance premium receivables	76,719	81,613
Others	466,344	164,091
	21,127,788	25,779,200

Reserve deposits at central banks

Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by the Central Bank of Turkey. Turkish Lira reserve deposits earn interest monthly starting from November 2014, and quarterly starting from 2015, to be paid by Central Bank of Turkey on the first business day following the end of March, June, September and December. US$ reserve deposits also earn interest starting from May 2015. The interest rates are calculated by Central Bank of Turkey according to market conditions.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years. The reserve deposits are not required to be kept under blocked accounts in the Netherlands, therefore, such balances are classified under “cash and balances with central banks” in Note 4.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US$ for foreign currency liabilities. Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 8% for RON denominated liabilities with a remaining maturity less than 2 years and 10% for foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks’ fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 0.10% for RON reserves 0.05% for Euro reserves and 0.06% for US$ reserves.

Tangible assets held for sale

The tangible assets held for sale are comprised of foreclosed real estates acquired by the Bank against its impaired receivables and are intended to be sold shortly. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. In case of real estates held for sale, this equirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 31 December 2016, real estates held for sale have been impaired by TL 35,458 thousands (2015: TL 24,302 thousands).

(Currency: Thousands of Turkish Lira (TL))

9 Other assets (continued)

As of 31 December 2016, the rights of repurchase on various tangible assets held for sale amounted to TL 359,660 thousands (2015: TL 258,845 thousands).

Investment properties

Movements in investment properties are as follows:

	2016	2015
Balance at the beginning of the period	307,095	296,191
Additions	231,273	-
Transfers to tangible assets	(212,495)	(18,009)
Disposals	(10,888)	-
Fair value changes	2,678	29,279
Effects of movement in exchange rates	2,763	(366)
Balance at the end of the period	320,426	307,095

The investment properties are held for operational leasing purposes.

10 Investment securities

	2016				2015
	Face value	Carrying value	Interest rate range %	Latest maturity	Carrying value
Debt and other instruments available-for-sale:					
Government bonds indexed to CPI	6,008,106	7,755,182	1-4	2025	6,883,939
Government bonds in TL	6,410,600	6,292,374	3-11	2026	5,499,427
Government bonds at floating rates *(a)*	3,479,068	3,486,266	9-10	2020	6,074,069
Bonds issued by financial institutions	3,034,465	3,002,066	1-17	2027	3,235,670
Bonds issued by foreign governments	1,311,647	1,425,545	1-5	2028	1,246,837
Bonds issued by corporations	920,077	945,009	1-13	2028	812,449
Eurobonds	732,122	722,603	3-12	2041	526,266
Discounted government bonds in TL	149,900	135,588	8-9	2025	128,360
Others		218,622			348,560
Total securities available-for-sale		23,983,255			24,755,577
Debt and other instruments held-to-maturity:					
Government bonds indexed to CPI	6,677,313	7,298,497	1-4	2024	7,298,498
Eurobonds	5,900,379	6,909,117	6-12	2040	5,739,860
Bonds issued by financial institutions	3,690,131	3,617,908	4-6	2022	3,299,190
Government bonds in TL	2,607,531	2,521,608	6-10	2023	2,998,498
Bonds issued by corporations *(b)*	181,095	177,276	4-8	2021	146,746
Bonds issued by foreign governments	159,398	159,317	1-7	2017	42,267
		20,683,723			19,525,059
Income accrual on held-to-maturity portfolio		2,425,973			1,792,187
Total securities held-to-maturity		23,109,696			21,317,246
Total investment securities		47,092,951			46,072,823

(a) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

(b) *In the prior period, the Bank sold a part of its credit linked notes with a total face value of US$ 300,000,000 before maturity as per the exceptions set out in IAS39 for the sale or reclassification of securities originally classified under debt and other instruments held-to maturity.*

(Currency: Thousands of Turkish Lira (TL))

10 Investment securities (continued)

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of available-for-sale assets are deferred as a separate component of equity.

There are no impairment losses on the investment securities as of 31 December 2016 (2015: nil).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 8,109,910 thousands (2015: TL 16,499,273 thousands).

The following table summarizes securities that were deposited as collateral with respect to various banking, insurance and asset management transactions:

	2016		*2015*	
	Face Value	*Carrying value*	*Face Value*	*Carrying value*
Collateralized to foreign banks	7,154,445	7,817,583	12,719,029	13,936,577
Deposited at central banks for repurchase transactions	4,393,998	5,105,955	2,562,224	2,684,281
Deposited at Borsa Istanbul	3,085,641	4,163,509	6,587,375	7,762,361
Deposited at central banks for interbank transactions	3,374,800	3,841,962	926,832	1,043,307
Deposited at Clearing Bank (Takasbank)	176,992	181,858	196,283	214,031
Deposited at CBT for foreign currency money market transactions	75,000	128,539	79,800	126,179
Others		21,803		19,292
		21,261,209		25,786,028

11 Investments in equity participations

	2016		*2015*	
	Carrying Value	*Ownership %*	*Carrying Value*	*Ownership %*
İstanbul Takas ve Saklama Bankası AŞ	27,636	5.25	27,636	5.25
Others	12,318		13,580	
	39,954		41,216	

Starting from 31 December 2016, the investments in Garanti Kültür AŞ, Garanti Konut Finansmanı Danışmanlık Hiz. AŞ and Garanti Ödeme Sistemleri AŞ, previously accounted under investment in equity participations, are consolidated in the accompanying consolidated financial statements.

The shares in Vadeli İşlem ve Opsiyon Borsası AŞ were replaced by the shares of Borsa İstanbul AŞ according to the article 138-6/b of the Capital Market Law no. 6362.

The legal name of İMKB Takasbank AŞ was changed as İstanbul Takas ve Saklama Bankası AŞ in 2013. The paid-in capital of İstanbul Takas ve Saklama Bankası AŞ was decided to be increased from TL 60,000 thousands to TL 420,000 thousands by TL 360,000 thousands of which TL 180,000 thousands was in cash, at the ordinary general meeting held on 29 March 2013. The Bank and its consolidated affiliate participated in this increase by TL 10,539 thousands in cash and also acquired bonus shares of TL 5,135 thousands. The ownership percentage remained the same.

At the Bank's board of directors meeting held on 3 June 2009, it was decided to participate in the capital increase of Kredi Garanti Fonu AŞ, included in others above, by TL 4,000 thousands and to subscribe for future capital increases up to TL 4,000 thousands in restructuring of the company to build a three-shareholders structure including the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Small and Medium Size Enterprises Development Organization (KOSGEB) and banks. As per this decision, the Bank has paid TL 2,000 thousands of its capital commitment of TL 4,000 thousands on 15 October 2009 for the capital increase of Kredi Garanti Fonu AŞ decided on 11 September 2009. The remaining balance was paid in two tranches in July 2011 and September 2012, by TL 1,000 thousands each.

(Currency: Thousands of Turkish Lira (TL))

11 Investments in equity participations (continued)

İstanbul Takas ve Saklama Bankası AŞ and other equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at 31 December 2005.

There are no impairment losses on investments in equity participations as of 31 December 2016 (2015: nil). The cumulative provisions for impairment losses on investments in equity participations amounted to TL 85 thousands as of 31 December 2016 (2015: TL 85 thousands).

12 Tangible and intangible assets

Movement in tangible and intangible assets from 1 January to 31 December 2016 and 2015 are as follows:

	1 January 2016	*Additions*	*Effects of Movement in Exchange Rates*	*Revaluation Surplus*	*Disposals and Transfer*	*31 December 2016*
Costs						
Land and buildings	2,444,444	21,406	18,754	(46,963)	190,352	2,627,993
Furniture, fixture, equipments and motor vehicles	2,593,173	942,268	22,185	-	(368,275)	3,189,351
Leasehold improvements and softwares	1,045,159	208,791	20,186	-	(29,333)	1,244,803
	6,082,776	1,172,465	61,125	(46,963)	(207,256)	7,062,147
Less: Accumulated depreciation						
Buildings	4,978	22,253	572	(3,742)	34,806	58,867
Furniture, fixture, equipments and motor vehicles	1,333,702	263,828	13,705	-	(199,046)	1,412,189
Leasehold improvements and softwares	683,349	128,118	15,194	-	(16,733)	809,928
	2,022,029	414,199	29,471	(3,742)	(180,973)	2,280,984
Construction in progress	371,562	175,615	121	-	(61,473)	485,825
	4,432,309					5,266,988
Impairment in value of tangible and intangible assets	(56,131)					(56,251)
	4,376,178					5,210,737

	1 January 2015	*Additions*	*Effects of Movement in Exchange Rates*	*Revaluation Surplus*	*Depreciation Netted in Revaluation Model*	*Disposals and Transfer*	*31 December 2015*
Costs							
Land and buildings	1,180,589	27,211	8,167	1,579,189	(359,368)	8,656	2,444,444
Furniture, fixture, equipments and motor vehicles	2,191,693	581,236	13,647	-		(193,403)	2,593,173
Leasehold improvements and softwares	921,624	128,649	14,298	-	-	(19,412)	1,045,159
	4,293,906	737,096	36,112	1,579,189	(359,368)	(204,159)	6,082,776
Less: Accumulated depreciation							
Buildings	335,922	25,330	1,247	-	(352,577)	(4,944)	4,978
Furniture, fixture, equipments and motor vehicles	1,211,735	208,974	7,220	-	-	(94,227)	1,333,702
Leasehold improvements and softwares	579,140	112,533	9,383	-	-	(17,707)	683,349
	2,126,797	346,837	17,850	-	(352,577)	(116,878)	2,022,029
Construction in progress	203,630	147,702	425	28,846	-	(9,041)	371,562
	2,370,739						4,432,309
Impairment in value of tangible and intangible assets	(51,471)						(56,131)
	2,319,268						4,376,178

(Currency: Thousands of Turkish Lira (TL))

12 Tangible and intangible assets (continued)

Depreciation expense of tangible assets for the year ended 31 December 2016 amounted to TL 422,034 thousands (2015: TL 346,837 thousands).

In 2016, an additional accumulated depreciation amounted to TL 32,190 thousands was presented as additions in the movement of tangible and intangible assets due to newly consolidated affiliates.

As of 31 December 2016, the revaluation model effect, net of deferred tax, for real estates under tangible and intangible assets amounting to TL 1,511,483 thousands was accounted under shareholders' equity (2015: TL 1,590,481 thousands).

As of 31 December 2016, the net book value of real estates under cost model instead of revaluation model is TL 1,806,314 thousands (2015: TL 1,096,969 thousands).

In 2016, TL 56,251 thousands (2015: TL 56,131 thousands) was provisioned and there is no reversal (2015: TL 51,517) for land and buildings as per the valuation study performed in accordance with IAS36.

13 Goodwill

As of 31 December 2016, goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring AŞ consisting of the excesses of the total acquisition costs over the fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

	2016	***2015***
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	32,948	32,948
Impairment of goodwill	-	-
	32,948	32,948

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

14 Deposits from banks

Deposits from banks comprise the following:

	2016	***2015***
Payable on demand	2,912,443	1,824,611
Term deposits	1,568,407	5,129,721
	4,480,850	6,954,332
Expense accrual on deposits from banks	7,096	5,849
	4,487,946	6,960,181

Deposits from banks include both TL accounts amounting to TL 758,213 thousands (31 December 2015: TL 1,927,442 thousands) and foreign currency accounts amounting to TL 3,722,637 thousands (31 December 2015: TL 5,026,890 thousands) in total. As of 31 December 2016, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-12% and 1%-2% (31 December 2015: 6%-12% and 1%-11%), respectively.

(Currency: Thousands of Turkish Lira (TL))

15 Deposits from customers

Deposits from customers comprise the following:

	2016			2015
	Demand	*Time*	*Total*	*Total*
Foreign currency	23,595,063	73,032,808	96,627,871	83,464,399
Saving	9,406,286	44,127,495	53,533,781	46,195,917
Commercial	8,334,208	10,005,695	18,339,903	14,866,494
Public and other	706,163	2,284,744	2,990,907	2,853,450
Gold and other precious metals	1,755,811	270,075	2,025,886	1,199,905
	43,797,531	129,720,817	173,518,348	148,580,165
Expense accrual on deposits from customers	23,403	613,894	637,297	574,109
	43,820,934	130,334,711	174,155,645	149,154,274

As of 31 December 2016, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 1%-15% and 1%-8% (31 December 2015: 1%-15% and 1%-12%), respectively.

16 Obligations under repurchase agreements and money market fundings

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

Obligations under repurchase agreements and money market fundings comprise the following:

	2016	*2015*
Money market fundings	3,416,372	426,678
Obligations under repurchase agreements	7,798,317	16,127,113
Obligations on securities under reverse repurchase agreements	15,504	14,005
	11,230,193	16,567,796

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
2016					
Financial assets at fair value through profit or loss	3,983	3,983	4,029	Jan'17	4,029
Investment securities	8,109,910	8,126,208	7,794,288	Jan'17-Feb'25	7,809,192
	8,113,893	8,130,191	7,798,317		7,813,221
2015					
Financial assets at fair value through profit or loss	8,814	8,814	9,996	Jan'16	9,996
Investment securities	16,499,273	16,492,406	16,117,117	Jan'16-Feb'25	16,288,306
	16,508,087	16,501,220	16,127,113		16,298,302

(Currency: Thousands of Turkish Lira (TL))

16 Obligations under repurchase agreements and money market fundings (continued)

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 31 December 2016, the maturities of the obligations varied from one day to 98 months and interest rates varied between 2%-11% (2015: 1%-14%). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

Expense accrual on obligations under repurchase agreements and money market fundings amounting to TL 10,532 thousands (2015: TL 20,370 thousands) is included in the carrying amount of corresponding liabilities.

17 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	2016	***2015***
Short-term borrowings		
Domestic banks	3,322,932	1,239,704
Foreign banks	13,634,202	12,408,195
	16,957,134	13,647,899
Long-term debts		
Short-term portion	7,462,893	4,879,261
Medium and long-term portion	22,623,249	21,205,296
	30,086,142	26,084,557
Expense accrual on loans and advances from banks and other institutions	284,668	227,478
	47,327,944	39,959,934

As of 31 December 2016, loans and advances from banks and other institutions included various promissory notes amounting to TL 950,938 thousands in total with short-term maturities (2015: TL 1,244,891 thousands).

As of 31 December 2016, short-term borrowings included two one-year-syndicated-loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of (i) US$ 479,325,000 and EUR 814,625,000 with rates of Libor + 0.85% and Euribor + 0.75% per annum with the participation of 42 banks from 15 countries (equivalent of TL 4,699,610 thousands), (ii) US$ 626,000,000 and EUR 615,500,000 with rates of Libor + 1.10% and Euribor + 1.00% per annum with the participation of 34 banks from 15 countries (equivalent of TL 4,477,719 thousands).

(Currency: Thousands of Turkish Lira (TL))

17 Loans and advances from banks and other institutions (continued)

Long-term debts comprise the following:

	2016					2015
	Interest rate%	*Latest maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
DPR Future Flow Transaction-XVI	3	2034	US$ 1 billions	-	3,513,000	2,908,000
DPR Future Flow Transaction-XVII	3	2034	US$ 550 millions	-	1,932,150	1,599,400
Deutsche Bank AG-II	3	2019	US$ 500 millions	-	1,756,500	1,454,000
DPR Future Flow Transaction-XVIII	2-3	2019	US$ 500 millions	281,040	1,474,879	1,453,662
DPR Future Flow Transaction-XIV	3	2026	US$ 399 millions	175,650	1,224,705	1,128,752
Bilateral Loan I	2	2017	US$ 145 millions	667,470	-	552,520
Deutsche Bank AG-I	11-13	2017	TL 568 millions	-	568,150	568,150
ING DIBA	1	2017	US$ 161 millions	349,598	216,667	289,952
DPR Future Flow Transaction-XX	3	2021	US$ 150 millions	-	526,950	-
Syndicated Loan	2	2018	US$ 149 millions	-	524,198	431,874
EIB I	1-4	2022	US$ 118 millions	78,292	335,375	342,427
Proparco	2	2028	EUR 100 millions	-	370,200	-
DPR Future Flow Transaction-XV	3	2018	US$ 102 millions	204,925	153,694	296,858
DPR Future Flow Transaction-XIX	2	2027	US$ 99 millions	17,137	331,206	288,013
DPR Future Flow Transaction-XIX	2	2020	US$ 89 millions	52,695	261,676	259,384
DPR Future Flow Transaction-XV	2	2018	EUR 78 millions	166,590	124,943	249,409
DPR Future Flow Transaction-IX	1	2018	EUR 60 millions	127,165	95,523	190,353
EIB III	10	2020	TL 219 millions	-	218,513	218,513
DPR Future Flow Transaction-XX	3	2021	US$ 60 millions	-	210,780	-
EIB II	9	2019	TL 206 millions	-	206,250	206,250
DPR Future Flow Transaction-XX	2	2021	EUR 50 millions	-	185,100	-
Bilateral Loan II	3	2019	US$ 50 millions	-	175,650	-
DPR Future Flow Transaction-XX	3	2021	US$ 50 millions	-	175,650	-
DPR Future Flow Transaction-XX	3	2021	US$ 50 millions	-	175,650	-
DPR Future Flow Transaction-XII	2	2022	EUR 47 millions	27,707	146,044	148,645
DPR Future Flow Transaction-XII	1	2022	EUR 47 millions	27,707	146,044	148,645
OPIC	3	2019	US$ 43 millions	50,587	101,174	125,626
DPR Future Flow Transaction-VIII	1	2017	US$ 42 millions	147,546	-	122,129
EIB IV	9	2019	TL 69 millions	-	69,100	68,580
EBRD-V	3	2017	US$ 17 millions	60,223	-	49,851
EBRD-II	1	2025	US$ 12 millions	4,960	37,196	34,681
DPR Future Flow Transaction-VIII	1	2017	US$ 12 millions	42,133	-	34,872
DPR Future Flow Transaction-VIII	1	2017	US$ 12 millions	40,588	-	34,884
EBRD-IV	2	2017	EUR 6 millions	21,154	-	18,093
EFSE	4	2017	EUR 5 millions	18,550	-	15,888
KfW	1	2017	EUR 3 millions	12,342	-	10,559
Others				4,888,834	7,366,282	7,955,326
				7,462,893	22,623,249	21,205,296

In December 2016, the Bank completed a DPR Future Flow Transaction ("the DPR Future Flow Transaction XX"); US$ 310 millions with a maturity of 5 years and EUR 50 millions with a maturity of 5 years through its future cash flows under the DPR program.

In October 2016, the Bank secured a loan from Proparco in the amount of EUR 100 millions with a maturity of twelve years for the financing of renewable energy and energy efficiency project.

In June 2016, the Bank secured a loan from international credit markets (Bilateral Loan II) in the amount of US$50 millions with a maturity of three years and one week.

In December 2014, one of the Bank's consolidated affiliates signed a loan agreement with ING Bank (ING DIBA), in the amount of US$ 125 millions in two equal tranches of one year (Tranche A) and two years (Tranche B) for the refinancing of trade finance loan portfolio. In December 2015, Tranche A of the secured facility was extended for 2 years and increased from US$ 62.5 millions to US$ 100 millions bringing the outstanding loan amount to US$ 162.5 millions at that time.

17 Loans and advances from banks and other institutions (continued)

In November 2015, the Bank secured a loan from international credit markets (Bilateral Loan I) in the amount of US$ 190 millions with a maturity of two years and one week.

In September 2015, the Bank signed a syndicated loan agreement with 1098 days maturity in the amount of US$ 150 millions with a rate of Libor + 1.85%.

In July 2015, the Bank completed a DPR Future Flow Transaction ("the DPR Future Flow Transaction XIX") transaction; US$ 100 millions with a maturity of 12 years, and US$ 90 millions with a maturity of 5 years through its future cashflows under the DPR program.

In December 2014, the Bank signed a loan agreement with European Investment Bank (EIB) (EIB IV) in amount of TL 69,100 thousands (equivalent of EUR 25 millions) with a maturity of five years for the financing of small and medium sized enterprises.

In July 2014, the Bank signed a loan agreement with European Investment Bank (EIB) (EIB III) in amount of TL 218,513 thousands (equivalent of EUR 75 millions) with a maturity of six years for the financing of small and medium-sized enterprises.

In May 2014, the Bank completed a DPR Future Flow Transaction (the "DPR Future Flow Transaction XVIII"); US$ 500 millions with a maturity of five years through its future cashflows under the DPR program.

In April 2014, the Bank completed a DPR Future Flow Transaction (the "DPR Future Flow Transaction XVII"); US$ 550 millions with a maturity of 20 years through its future cashflows under the DPR program.

In December 2013, the Bank completed a DPR Future Flow Transaction (the "DPR Future Flow Transaction XVI"); US$ 1 billions with a maturity of 21 years through its future cashflows under the DPR program.

The Bank classified its DPR Future Flow Transactions XVI, XVII and XVIII as financial liability at fair value through profit/loss at the initial recognition. As of 31 December 2016, the positive credit risk change amounting to TL 314,843 thousands is recognized in the statement of income (31 December 2015: TL 416,672 thousands).

In December 2013, the Bank signed a loan agreement with European Investment Bank (EIB) (EIB II) in amount of TL 206,250 thousands (equivalent of EUR 75 millions) with a maturity of six years for the financing of small and medium-sized enterprises.

In October 2013, the Bank completed a DPR Future Flow Transaction (the DPR Future Flow Transaction-XV), arranged by European Bank for Reconstruction and Development (EBRD), Wells Fargo Bank NA, Raiffeisen Bank International AG and Sumitomo Mitsui Banking Corporation in the amount of US$ 175 millions and EUR 135 millions both with a maturity of five years.

In August 2013, the Bank signed a loan agreement with Kreditanstalt für Wiederaufbau (KfW) in the amount of EUR 20 millions with a maturity of four years for the financing of small and medium-sized enterprises.

In December 2012, one of the Bank's consolidated affiliates signed a loan agreement with European Fund for Southeast Europe (EFSE) in the amount of EUR 25 millions with a maturity of five years for the financing of micro and small enterprises.

In November 2012, the Bank signed a loan agreement with EBRD (EBRD-V) in the amount of US$ 60 millions with a maturity of five years for the financing of the women entrepreneurs.

In August 2012, the Bank completed a DPR Future Flow Transaction (the "DPR Future Flow Transaction-XIV) by issuance of certificates, a tranche of US$ 400 millions with 14 years maturity, granted directly by Overseas Private Investment Corporation (OPIC) to finance credit needs of SMEs across Turkey.

17 Loans and advances from banks and other institutions (continued)

In December 2011, the Bank signed a credit agreement with EBRD (EBRD-IV) for a loan in the amount of EUR 40 millions with a maturity of five years for financing of small and medium size enterprises in agribusiness.

In June 2011, the Bank completed a DPR Future Flow Transaction (the “DPR Future Flow Transaction-XIII”), arranged by SMBC Nikko Securities America Inc., WestLB AG and Wells Fargo Securities LLC in the amount of US$ 225 millions with a maturity of five years and by Standard Chartered Bank in the amount of EUR 50 millions with five years maturity.

In December 2010, the Bank completed a DPR Future Flow Transaction (the “DPR Future Flow Transaction-XII”), with the involvement of EIB in the amount of EUR 75 millions with 12 years maturity, by EBRD in the amount of EUR 75 millions with 12 years maturity, by West LB in the amount of EUR 100 millions with five years maturity.

In September 2010, the Bank signed a loan agreement with EBRD (EBRD-III) in the amount of EUR 50 millions which consists of 2 tranches for the financing of SMEs. The first tranche in the amount of EUR 20 millions with a maturity of five years has been financed by EBRD while the second tranche in the amount of EUR 30 millions with one year maturity by Standard Chartered Bank.

In June 2010, the Bank drew a second loan tranche worth of US$ 60,050,000 (equivalent of EUR 50 millions) with a maturity of 12 years, within the EUR 150,000,000 framework agreement signed with EIB (EIB I) on 25 November 2009. The fund will be used for the financing of the investment and working capital needs of SMEs located in Turkey. In December 2009, the Bank had been granted another funding by EIB again for the financing of SME loans in the amount of US$ 147,680,000 (equivalent of EUR 100 millions) with a maturity of 12 years.

In May 2010, the Bank signed a credit agreement with EBRD (EBRD-II) for a loan in the amount of US$ 60 millions which consists of two tranches. The loan, which is funded directly by EBRD with the 5-year tranche of US$ 48 millions and by the Clean Technology Fund which is established by the International Bank for Reconstruction and Development (the World Bank) in consultation with other international financial institutions, developed and developing countries and development partners, with the 15-year tranche of US$ 12 millions, will be utilized for the financing of the energy efficiency needs of the small sized enterprises.

In December 2009, the Bank signed a credit agreement with OPIC for a facility for the financing of SMEs in the amount of US$ 100 millions with a maturity of ten years.

In April 2009, the Bank borrowed US$ 500 millions (Deutsche Bank AG-II) from Deutsche Bank AG, London with a maturity of ten years at 2.7% annual fixed-interest rate through a secured financing transaction. Accordingly, the Bank pledged US$ 500 millions of cash collateral to Deutsche Bank AG, London at annual US$ libor floating interest rate.

In August 2008, the Bank completed a DPR Future Flow Transaction (the “DPR Future Flow Transaction-IX”) by issuance of certificates; a tranche of EUR 200 millions with ten years maturity from EIB.

In June 2007, the Bank completed a DPR Future Flow Transaction (the “DPR Future Flow Transaction-VIII”) by issuance of certificates; three tranches of US$ 550 millions with ten years maturity wrapped by Ambac Assurance Corp., Financial Guaranty Insurance Corp. and XL Capital Assurance and a tranche of US$ 50 millions with eight years maturity and no financial guarantee.

In January 2007, the Bank borrowed TL 435 millions from Deutsche Bank AG, London with a maturity of ten years at 12.93% annual fixed interest rate through a secured financing transaction. Accordingly, the Bank pledged US$ 300 millions of cash collateral to Deutsche Bank AG, London. Subsequently, the Bank has entered into two more secured financing transactions with the same counterparty under the same collateral conditions and borrowed in total TL 266 millions in two separate transactions on 28 June and 3 July 2007 with maturity of ten years for each and pledged US$ 100 millions of cash collateral for each. The funding costs are 11.30% and 11.35%, respectively (Deutsche Bank AG-I). The cash collaterals earn annually US$ libor floating interest rate.

17 Loans and advances from banks and other institutions (continued)

The DPR Future Flow Transaction is a way of securitizing the Bank's payment orders created via SWIFT MT 103 or similar payment orders in terms of US Dollar, Euro and GBP accepted as derived primarily from the Bank's trade finance and other corporate businesses and paid through foreign depository banks.

18 Bonds payable

Bonds payable comprise of the following:

	2016			*2015*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Bonds payable of US$ 2,632 millions	2022	0.7-6.4	8,449,805	7,963,319
Bonds payable of TL 5,978 millions	2018	7.5-12.1	5,930,561	4,495,626
Bonds payable of EUR 586 millions	2027	0.5-5.2	2,160,087	1,875,214
Bonds payable of AUD 175 millions	2018	5.6	443,378	370,913
Bonds payable of RON 420 millions	2019	5.5-6.3	340,905	313,252
Bonds payable of JPY 5,500 millions	2017	0.4-1.3	165,440	113,768
Bonds payable of CZK millions			-	39,849
			17,490,176	15,171,941
Expense accrual on bonds payable			356,164	339,656
			17,846,340	15,511,597

The total face value of the bonds and bills issued by the Bank in domestic market amounted to TL 4,096 millions as of 31 December 2016 (2015: TL 2,880 millions). The issuances are authorized by the Turkish Capital Markets Board.

The Bank's consolidated affiliates issue short-term bills with total outstanding face value amounting to TL 1,231,611 thousands and latest maturity date of April 2018.

In July 2014, the Bank issued EUR 500 millions, fixed-rate notes with a maturity date of 8 July 2019 and a coupon rate of 3.375% in the international markets.

In June 2014, one of the Bank's consolidated affiliates issued fixed-rate notes with a total face value of RON 300,000 thousands, a maturity date of 15 May 2019 and a coupon rate of 5.47%.

In April 2014, the Bank issued US$ 750 million, fixed rate notes with a maturity date of 17 October 2019 and a coupon rate of 4.75% in the international markets.

In April 2013, the Bank established a Global Medium Term Notes (GMTN) program in order to issue bonds and other borrowing instruments in any currency with different series and maturities. In this regard, since May 2013 the Bank issues bills in US$, EUR, CHF, RON, CZK, JPY and AUD with latest maturity in April 2027.

In March 2013, the Bank issued TL 750 million 5-year fixed-rate notes with a maturity date of 7 March 2018 and a coupon rate of 7.375% in the international markets.

In September 2012, the Bank issued US$ 750 million 10-year fixed-rate notes with a maturity date of 13 September 2022 and a coupon rate of 5.25% and US$ 600 million 5-year fixed-rate notes with a maturity date of 13 September 2017 and a coupon rate of 4.00% in the international markets.

In April 2011, the Bank issued US$ 500 million 10-year fixed-rate notes with a maturity date of 20 April 2021 and a coupon rate of 6.25% and US$ 300 million 5-year floating-rate notes with a maturity date of 20 April 2016 and a coupon rate of 3-month libor + 2.50% in the international markets.

The Bank and/or its consolidated affiliates repurchased some of the Group's own Turkish Lira securities with a total face value of TL 107,896 thousands (2015: TL 162,821 thousands) and foreign currency securities with a total face value of TL 764,060 thousands (2015: TL 638,989 thousands), and netted off such securities in the accompanying consolidated financial statements as of 31 December 2016.

(Currency: Thousands of Turkish Lira (TL))

18 Bonds payable (continued)

The Bank classified certain securities amounting to TL 104,473 thousands and RON 34,500,000 as financial liability at fair value through profit/loss at the initial recognition. As of 31 December 2016, the accumulated negative credit risk changes and the negative and positive credit risk changes recognised in the statement of income amounted to TL 144 thousands and TL 2,289 thousands, and TL 144 thousands and TL 722 thousands, respectively. The carrying value of the related financial liability amounted to TL 30,618 thousands and TL 105,368 thousands, and the related current period losses and gains amounted to TL 896 thousands and TL 953 thousands, respectively.

19 Subordinated liabilities

Subordinated liabilities comprised of the following as of 31 December 2015:

	Latest maturity	*Interest rate %*	*Amount*
Subordinated debt of EUR 50 millions	2021	euribor+3.5	158,355
Expense accrual on subordinated liabilities			1,437
			159,792

On 23 February 2009, the Bank had obtained a 12-year subordinated loan of EUR 50 millions due in March 2021 from Proparco (Societe de Promotion et de Participation pour la Cooperation Economique SA) a company of the French Development Agency Group, with an interest of euribor+3.5% and a repayment option for the Bank at the end of the seventh year. Following the approval of the BRSA, total amount of the debt was repaid on 31 March 2016, by exercising the call option at the end of 7-year period.

20 Taxation

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes.

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 nonresident 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 nonresident 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.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

20 **Taxation** (continued)

Tax applications for foreign branches

NORTHERN CYPRUS

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October.

MALTA

The corporate earnings are subject to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations’ branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The taxes payable is calculated by the obligating firm and the calculation is shown at the tax declaration form that is due till the following year’s September and the payment is done till this date.

LUXEMBOURG

The corporate earnings are subject to a 21% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. An additional 7% of the calculated corporate income tax is paid as a contribution to unemployment insurance fund. 3% of the taxable income is paid as municipality tax addition to corporate tax, the municipalities have the right to increase this rate up to 200-350%. The municipality commerce tax, which the Bank’s Luxembourg branch subject to currently is applied as 7.50% of taxable income The tax returns do not include any tax amounts to be paid. The tax calculations are done by the tax office and the amounts to be paid are declared to corporates through official letters called Note. The amounts and the payment dates of prepaid taxes are determined and declared by the tax office at the beginning of the taxation period. The corporations whose head offices are outside Luxembourg, are allowed to transfer the rest of their net income after tax following the allocation of 5% of it for legal reserves, to their head offices.

Tax applications for foreign affiliates

THE NETHERLANDS

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax rate for the Germany branch is 30%.

ROMANIA

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for seven years. Tax losses can be carried forward to offset against future taxable income for seven years.

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	2016	%	2015	%
Taxes on income per statutory tax rate	1,267,847	20.00	952,266	20.00
Disallowable expenses	38,045	0.60	61,375	1.29
Income items exempt from tax or subject to different tax rates	(38,624)	(0.61)	(11,012)	(0.23)
General reserve	8,400	0.13	(14,600)	(0.31)
Others	11,841	0.19	(34,120)	(0.72)
Taxation charge	1,287,509	20.31	953,909	20.03

The taxation charge is comprised of the following:

	2016	2015
Current taxes	1,035,553	832,787
Deferred taxes	251,956	121,122
Taxation charge	1,287,509	953,909

The movement of current tax liability is as follows:

	2016	2015
Balance at the beginning of the period	376,779	450,209
Current period taxation charge	1,035,553	832,787
Less: Advance taxes paid during the period	(1,291,790)	(906,217)
Current tax liability	120,542	376,779

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Deferred tax assets and liabilities are as follows:

	2016	2015
Total deferred tax assets	1,132,096	1,235,869
Off-setted amount	(275,499)	(222,317)
Deferred tax assets per financial statements	856,597	1,013,552
Total deferred tax liabilities	298,814	241,829
Off-setted amount	(275,499)	(222,317)
Deferred tax liabilities per financial statements	23,315	19,512
Net deferred tax assets	833,282	994,040

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

Movements in deferred tax assets and liabilities are detailed in the table below:

2016	*Opening balance*	*Recognized in income statement*	*Effects of movement in exchange rates*	*Recognized in equity*	*Closing balance*
Impairment losses on loans	599,828	82,798	135	-	682,761
Discount on loans and advances to customers	81,090	13,466	-	-	94,556
Reserve for employee severance indemnity	58,303	8,973	651	1,643	69,570
Short-term employee benefits	49,743	22,272	1,106	-	73,121
Tax losses carried forward	43,601	1,921	(5,155)	-	40,367
Valuation difference on financial assets and liabilities	98,117	(375,200)	8,292	76,185	(192,606)
Revaluation surplus on real estates	(27,620)	1,242	669	394	(25,315)
Impairment of equity participations, tangible and intangible assets	14,361	766	-	-	15,127
Accruals on credit card rewards	17,362	1,505	-	-	18,867
Pro-rata basis depreciation expenses	(58,726)	(24,451)	1,228	-	(81,949)
Prepaid expenses and promotions	(1)	-	-	-	(1)
Others, net	117,982	14,752	702	5,348	138,784
Net deferred tax assets	994,040	(251,956)	7,628	83,570	833,282

2015	*Opening balance*	*Recognized in income statement*	*Effects of movement in exchange rates*	*Recognized in equity*	*Closing balance*
Impairment losses on loans	488,751	110,869	208	-	599,828
Discount on loans and advances to customers	71,386	9,704	-	-	81,090
Reserve for employee severance indemnity	49,772	2,644	-	5,887	58,303
Short-term employee benefits	51,699	(2,054)	98	-	49,743
Tax losses carried forward	44,863	(5,132)	3,870	-	43,601
Valuation difference on financial assets and liabilities	170,297	(258,412)	(2,355)	188,587	98,117
Revaluation surplus on real estates	(11,219)	(1,825)	(6)	(14,570)	(27,620)
Impairment of equity participations, tangible and intangible assets	11,944	2,417	-	-	14,361
Accruals on credit card rewards	16,487	875	-	-	17,362
Tax exemption for leasing business	1,202	(1,202)	-	-	-
Pro-rata basis depreciation expenses	(41,254)	(17,908)	436	-	(58,726)
Prepaid expenses and promotions	(17)	16	-	-	(1)
Others, net	54,447	38,886	416	24,233	117,982
Net deferred tax assets	908,358	(121,122)	2,667	204,137	994,040

Transfer pricing

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of “Disguised Profit Distribution by Way of Transfer Pricing”. “The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing” published at 18 November 2007, explains the application related issues on this topic.

According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm’s length principle, then it will be concluded that there is a disguised profit distribution by way of transfer

(Currency: Thousands of Turkish Lira (TL))

20 Taxation (continued)

pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As stated in the "7.1 Annual Documentation" section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

21 Other liabilities, accrued expenses and provisions

The principal components of other liabilities, accrued expenses and provisions are as follows:

	2016	2015
Blocked accounts against expenditures of card holders	7,874,527	6,943,869
Derivative financial liabilities	4,059,527	2,873,548
Miscellaneous payables	563,375	354,050
Expense accruals	544,883	468,803
Short-term employee benefits	380,459	263,691
Reserve for employee severance indemnity	367,583	311,132
Withholding taxes	364,508	326,345
Option premium payables	336,606	499,070
Insurance business related provisions	306,765	251,285
General reserve	300,000	342,000
Provision for non-cash loans	212,084	254,221
Transfer orders	197,715	180,809
Unearned income	127,050	102,269
Advances received	115,060	93,540
Payables to suppliers relating to financial lease activities	93,167	112,976
Blocked accounts	58,399	39,561
Payables to insurance and reinsurance companies relating to insurance business	32,606	21,096
Cheques at clearing house	25,270	-
Cash guarantees obtained	11,731	213,184
Others	717,331	470,993
	16,688,646	14,122,442

As of 31 December 2016, other liabilities, accrued expenses and provision include a general reserve amounting to TL 300,000 thousands (2015: TL 342,000 thousands) provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions under the name of general reserve.

Recognized liability for defined benefit obligations

(i) Defined benefit plan

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by

21 Other liabilities, accrued expenses and provisions (continued)

IAS 19 Employee Benefits as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

a) Pension and medical benefits transferable to SSF

As per the provisional Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed regarding the methodology and parameters determined by the commission established by Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 (“Decree”) for the purpose of determining the principles and procedures to be applied during the transfer of funds. However the said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional article no.23.

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceeded the amount that would be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey (“Turkish Parliament”) worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional Article no. 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional Article no. 20 of the Social Security and Public Health Insurance Law no.5510.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

On 19 June 2008, the main opposition party Cumhuriyet Halk Partisi ("CHP") applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article no. 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the Article no. 73 and the first paragraph of the provisional Article no. 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request was denied with the majority of votes.

Before the completion of two-years period set by the Council of Ministers on 14 March 2011 as explained above, as per the Article no. 51 of the law no. 6645, published in the Official Gazette no. 29335 dated 23 April 2015, the Article no. 20 of the law no. 5510 was amended giving the Council of Ministers the authority to determine the date of transfer without defining any timeline.

The Bank obtained an actuarial report dated 5 December 2016 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 31 December 2016.

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually. As per the calculation as of 31 December 2016, the present value of funded obligations amounted to TL 278,188 thousands (2015: TL 114,487 thousands) and the fair value of the planned assets amounted to TL 3,050,930 thousands (2015: TL 2,522,836 thousands).

	2016	***2015***
Present value of funded obligations		
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(770,448)	(608,796)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	531,665	528,011
- General administrative expenses	(39,405)	(33,702)
	(278,188)	(114,487)
Fair value of plan assets	3,050,930	2,522,836
Asset surplus in the plan (*)	2,772,742	2,408,349

(*) Asset surplus in this plan will be used to cover the excess benefits not transferable to SSF.

Plan assets consisted of the following:

	2016	***2015***
Cash and due from banks	332,000	532,000
Securities	2,621,555	1,893,501
Land and buildings	96,845	96,845
Other	530	490
	3,050,930	2,522,836

b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

Asset surplus/(shortage) on present value of defined benefit obligation is as follows:

	2016	2015
Present value of defined benefit obligations		
- Pension	(662,751)	(592,937)
- Health	(627,139)	(478,453)
Fair value of plan assets (*)	2,772,742	2,408,349
Asset surplus over present value of defined benefit obligation	1,482,852	1,336,959

(*) *Plan assets are composed of asset surplus in the plan explained in paragraph* a).

As per the actuarial calculation performed as of 31 December 2016 as detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covered the benefits not transferable and still a surplus of TL 1,482,852 thousands (2015: TL 1,336,959 thousands) remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 531,665 thousands (2015: TL 528,011 thousands) as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there was no excess obligation that needed to be provided against as of 31 December 2016.

	2016	2015
Asset surplus over present value of defined benefit obligation	1,482,852	1,336,959
Net present value of medical benefits and health premiums transferable to SSF	(531,665)	(528,011)
Present value of asset surplus/(defined benefit obligation)	951,187	808,948

Expenses recognized regarding this benefit plan in the accompanying consolidated statement of income for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
Total contribution payment	246,589	202,645
Provision for unfunded liability	-	-
	246,589	202,645

Principal actuarial assumptions used were as follows:

	2016 %	2015 %
Discount rates (*)	11.50	10.30
Inflation rates (*)	7.80	7.10
Future real salary increase rates	1.5	1.5
Medical cost trend rates	40% above inflation	40% above inflation
Future pension increase rates (*)	7.80	7.10

(*) *The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.*

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 17 for males, and at age 58 for females is 23.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

The sensitivity analysis of defined benefit obligation of excess liabilities were as follow as of 31 December 2016:

	2016		
	% change in defined benefit obligation		
Assumption change	***Pension Benefits %***	***Medical Benefits %***	***Overall %***
Discount rate +1%	(13.4)	(16.9)	(15.1)
Discount rate -1%	17.1	22.5	19.7
Medical inflation +10% of CPI		16.9	8.2
Medical inflation -10% of CPI		(13.6)	(6.6)

	2015		
	% change in defined benefit obligation		
Assumption change	***Pension Benefits %***	***Medical Benefits %***	***Overall %***
Discount rate +1%	(14.0)	(17.5)	(15.6)
Discount rate -1%	18.1	22.8	20.2
Medical inflation +10% of CPI		15.3	6.8
Medical inflation -10% of CPI		(13.1)	(5.9)

Short-term employee benefits

Movement in the provision for short-term employee benefits are as follows:

	2016	***2015***
Balance, beginning of the period	263,691	283,112
Payments	(203,941)	(364,568)
Provision for the period, net	320,709	345,147
Balance, end of the period	380,459	263,691

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	2016	***2015***
Reserve for unearned premiums, net	80,521	89,118
Gross	*105,930*	*112,548*
Reinsurers' share	*(25,409)*	*(23,430)*
Provision for claims, net	27,085	25,723
Gross	*37,195*	*34,980*
Reinsurers' share	*(10,110)*	*(9,257)*
Life mathematical reserves	199,159	136,444
	306,765	251,285

Reserve for employee severance indemnity

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

	2016	***2015***
Balance, beginning of the period	311,132	268,544
Payments	(33,806)	(19,540)
Provision for the period	82,224	59,870
Actuarial gain/loss	8,033	2,258
Balance, end of the period	367,583	311,132

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are full TL 4,297.21 and full TL 3,828.37 as of 31 December 2016 and 2015, respectively.

(Currency: Thousands of Turkish Lira (TL))

21 Other liabilities, accrued expenses and provisions (continued)

The principal actuarial assumptions for the Bank and its consolidated affiliates are as follows:

	2016 (*) %	2015 (*) %
Discount rates	3.43	2.99
Interest rates	11.50	10.30
Expected rates of salary increases	9.30	8.60
Inflation rates	7.80	7.10

(*) The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.

Provision for non-cash loans

Movement in the provision for non-cash loans are as follows:

	2016	2015
Balance, beginning of the period	254,221	249,272
(Reversal)/provision for the period, net	(42,137)	4,949
Balance, end of the period	212,084	254,221

22 Equity

Share capital

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 31 December 2016.

Unrealised gains from changes in fair value of available-for-sale assets are detailed as follows:

	2016	2015
Balance at the beginning of the period	(283,792)	88,631
Net unrealised (losses)/gains from changes in fair value	(17,923)	(410,897)
Related deferred and current income taxes	11,169	78,397
Net gains transferred to the statement of comprehensive income on disposal	(234,710)	(138,349)
Related deferred and current income taxes	20,295	29,308
Changes resulted from disposal of assets	2,296	-
Effect of movements in foreign exchange rates	(41,110)	69,118
Balance at the end of the period	(543,775)	(283,792)

Hedging reserve

The hedging reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 26.4 for the details) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

(Currency: Thousands of Turkish Lira (TL))

22 Equity (continued)

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its affiliates, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 1,275,230 thousands (2015: TL 1,229,498 thousands) in total.

For the Bank and its Turkish affiliates, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank's affiliates in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank's affiliate in the Netherlands is not subject to any legal reserve requirements.

Non-controlling interests

As of 31 December 2016, net non-controlling interests amount to TL 267,808 thousands (2015: TL 226,617 thousands). Non-controlling interests are detailed as follows:

	2016	**2015**
Capital	55,219	55,219
Retained earnings and other reserves	170,266	137,185
Net income for the period	42,323	34,213
	267,808	226,617

23 Fair value information

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.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

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

(Currency: Thousands of Turkish Lira (TL))

23 Fair value information (continued)

Fair value of loans and advances to customers is TL 207,597,264 thousands (2015: TL 177,074,949 thousands), whereas the carrying amount is TL 205,988,793 thousands (2015: TL 175,681,692 thousands) in the accompanying consolidated statement of financial position as of 31 December 2016.

Fair value of investment securities is TL 46,782,564 thousands (2015: TL 46,223,017 thousands), whereas the carrying amount is TL 47,092,951 thousands (2015: TL 46,072,823 thousands) in the accompanying consolidated statement of financial position as of 31 December 2016.

The table below analyses financial instruments carried at fair value, by valuation method:

2016	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	1,086,299	-	-	1,086,299
Derivative financial assets	12,449	4,267,978	-	4,280,427
Debt and other instruments available-for-sale	23,120,443	246,183	616,629	23,983,255
Financial Assets at Fair Value	24,219,191	4,514,161	616,629	29,349,981
Loans and advances from banks and other institutions	-	1,763,177	-	1,763,177
Derivative financial liabilities	977	4,058,550	-	4,059,527
Financial Liabilities at Fair Value	977	5,821,727	-	5,822,704

2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets at fair value through profit or loss	430,753	229,440	-	660,193
Derivative financial assets	285	2,407,390	-	2,407,675
Debt and other instruments available-for-sale	18,457,705	5,724,174	573,698	24,755,577
Financial Assets at Fair Value	18,888,743	8,361,004	573,698	27,823,445
Loans and advances from banks and other institutions	-	5,688,704	-	5,688,704
Derivative financial liabilities	3,617	2,869,931	-	2,873,548
Financial Liabilities at Fair Value	3,617	8,558,635	-	8,562,252

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

Fair value measurement of financial instruments is disclosed under significant accounting policies (h).

24 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	2016	*2015*
Letters of guarantee	38,012,713	32,709,109
Letters of credit	15,754,367	14,576,338
Acceptance credits	2,127,334	1,538,069
Other guarantees and endorsements	191,066	109,206
	56,085,480	48,932,722

24 Commitments and contingencies (continued)

As of 31 December 2016;

- Commitment for unpaid capital of affiliated companies amounts to TL 5,266 thousands (2015: TL 5,297 thousands).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments amount to TL 45,790,059 thousands (2015: TL 40,851,564 thousands) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 1,249,188 thousands (2015: TL 793,989 thousands) in total.

As of 31 December 2016, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 21,136 thousands (2015: TL 45,473 thousands).

25 Derivative financial instruments

As of 31 December 2016, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 148,281,594 thousands (2015: TL 132,069,129 thousands), approximately 82% of which are due within a year.

The following tables summarize the notional amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of income, except for contracts of cash flow hedges as stated above.

(Currency: Thousands of Turkish Lira (TL))

25 Derivative financial instruments (continued)

	Notional amount with remaining life of					
2016	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps *(*)*	-	1,191	6,127	44,626	795,325	847,269
Purchases	-	*59*	*6,019*	*22,886*	*485,419*	*514,383*
Sales	-	*1,132*	*108*	*21,740*	*309,906*	*332,886*
Interest rate options	-	-	-	-	5,927,914	5,927,914
Purchases	-	-	-	-	*2,963,957*	*2,963,957*
Sales	-	-	-	-	*2,963,957*	*2,963,957*
Interest rate futures	-	100,121	-	-	-	100,121
Purchases	-	-	-	-	-	-
Sales	-	*100,121*	-	-	-	*100,121*
Other Derivatives						
Securities, shares and index options	79,184	40,929	263	-	-	120,376
Purchases	*47,421*	*39,989*	*263*	-	-	*87,673*
Sales	*31,763*	*940*	-	-	-	*32,703*
Other forward contracts	52,988	212,855	44,895	24,043	-	334,781
Purchases	*52,908*	*111,517*	*32,505*	*14,924*	-	*211,854*
Sales	*80*	*101,338*	*12,390*	*9,119*	-	*122,927*
Other future contracts	2,020	66,656	-	-	-	68,676
Purchases	*408*	*5,363*	-	-	-	*5,771*
Sales	*1,612*	*61,293*		-	-	*62,905*
Other swap contracts	4,839	250,808	99,214	227,408	12,960,978	13,543,247
Purchases	-	*29,861*	-	*24,591*	*5,895,867*	*5,950,319*
Sales	*4,839*	*220,947*	*99,214*	*202,817*	*7,065,111*	*7,592,928*
Currency Derivatives						
Spot exchange contracts	1,969,748	-	-	-	-	1,969,748
Purchases	*294,003*	-	-	-	-	*294,003*
Sales	*1,675,745*	-	-	-	-	*1,675,745*
Forward exchange contracts	7,738,793	2,613,124	1,574,515	1,470,544	696,184	14,093,160
Purchases	*5,106,618*	*1,593,224*	*701,898*	*690,088*	*217,116*	*8,308,944*
Sales	*2,632,175*	*1,019,900*	*872,617*	*780,456*	*479,068*	*5,784,216*
Currency/cross currency swaps	43,087,215	17,974,209	8,455,242	10,442,133	4,940,627	84,899,426
Purchases	*27,977,896*	*8,024,250*	*3,906,757*	*4,951,434*	*2,871,580*	*47,731,917*
Sales	*15,109,319*	*9,949,959*	*4,548,485*	*5,490,699*	*2,069,047*	*37,167,509*
Options	9,143,943	5,918,609	4,666,252	5,409,206	1,143,233	26,281,243
Purchases	*3,917,730*	*3,254,974*	*2,422,159*	*2,443,607*	*763,176*	*12,801,646*
Sales	*5,226,213*	*2,663,635*	*2,244,093*	*2,965,599*	*380,057*	*13,479,597*
Foreign currency futures	-	86,912	4,333	4,388	-	95,633
Purchases	-	*17,565*	*4,333*	*4,388*	-	*26,286*
Sales	-	*69,347*	-	-	-	*69,347*
Subtotal Purchases	37,396,984	13,076,802	7,073,934	8,151,918	13,197,115	78,896,753
Subtotal Sales	24,681,746	14,188,612	7,776,907	9,470,430	13,267,146	69,384,841
Total of Transactions	62,078,730	27,265,414	14,850,841	17,622,348	26,464,261	148,281,594

(*) In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.

(Currency: Thousands of Turkish Lira (TL))

25 Derivative financial instruments (continued)

	Notional amount with remaining life of					
2015	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate options	-	-	102,930	2,280,312	3,877,250	6,260,492
Purchases	-	-	*51,465*	*1,140,156*	*1,938,625*	*3,130,246*
Sales	-	-	*51,465*	*1,140,156*	*1,938,625*	*3,130,246*
Interest rate swaps *(*)*	-	4,096	11,264	10,141	675,587	701,088
Purchases	-	*4,096*	*11,264*	*10,070*	*381,019*	*406,449*
Sales	-	-	-	*71*	*294,568*	*294,639*
Other Derivatives						
Securities, shares and index options	22,440	14,154	-	-	46,546	83,140
Purchases	*11,909*	*10,362*	-	-	*23,273*	*45,544*
Sales	*10,531*	*3,792*	-	-	*23,273*	*37,596*
Other forward contracts	140,082	333,368	319,350	531,798	-	1,324,598
Purchases	*121,906*	*296,211*	*247,483*	*365,185*	-	*1,030,785*
Sales	*18,176*	*37,157*	*71,867*	*166,613*	-	*293,813*
Other future contracts	-	10,050	106,089	170,708	-	286,847
Purchases	-	*2,450*	-	-	-	*2,450*
Sales	-	*7,600*	*106,089*	*170,708*	-	*284,397*
Other swap contracts	118,545	-	-	-	10,652,114	10,770,659
Purchases	*118,545*	-	-	-	*4,798,200*	*4,916,745*
Sales	-	-	-	-	*5,853,914*	*5,853,914*
Currency Derivatives						
Spot exchange contracts	1,634,258	-	-	-	-	1,634,258
Purchases	*74,243*	-	-	-	-	*74,243*
Sales	*1,560,015*	-	-	-	-	*1,560,015*
Forward exchange contracts	6,382,940	4,156,264	2,197,044	2,378,497	1,364,279	16,479,024
Purchases	*3,363,106*	*2,531,173*	*1,102,542*	*1,218,629*	*718,135*	*8,933,585*
Sales	*3,019,834*	*1,625,091*	*1,094,502*	*1,159,868*	*646,144*	*7,545,439*
Currency/cross currency swaps	31,216,686	4,902,106	6,066,843	5,465,597	4,267,356	51,918,588
Purchases	*17,471,004*	*3,615,102*	*3,691,734*	*3,844,558*	*2,892,910*	*31,515,308*
Sales	*13,745,682*	*1,287,004*	*2,375,109*	*1,621,039*	*1,374,446*	*20,403,280*
Options	8,131,932	10,212,011	6,133,226	14,511,987	3,614,252	42,603,408
Purchases	*3,148,483*	*4,291,510*	*2,845,755*	*8,779,015*	*2,065,545*	*21,130,308*
Sales	*4,983,449*	*5,920,501*	*3,287,471*	*5,732,972*	*1,548,707*	*21,473,100*
Foreign currency futures	-	3,117	-	3,910	-	7,027
Purchases	-	*3,117*	-	*345*	-	*3,462*
Sales	-	-	-	*3,565*	-	*3,565*
Subtotal Purchases	24,309,196	10,754,021	7,950,243	15,357,958	12,817,707	71,189,125
Subtotal Sales	23,337,687	8,881,145	6,986,503	9,994,992	11,679,677	60,880,004
Total of Transactions	47,646,883	19,635,166	14,936,746	25,352,950	24,497,384	132,069,129

(*) In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.

26 Financial risk management disclosures

This section provides details of the Bank and its affiliates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affiliates are exposed, are credit risk, liquidity risk, market risk and operational risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 26.2 contains risk management information related to the trading portfolio and section 26.3 deals with the non-trading portfolio.

Risk management framework

The Bank's Risk Management Strategy is established as part of a maintainable long term, value adding growth strategy. This strategy involves optimal allocation of economic capital to business lines considering the risk-return balance by measuring risks with the methods in compliance with its activities and national regulations and international standards.

The Bank determines the necessary approaches in order to update, revise, apply and manage its policies set for the proper assessment and management of risks considering changes in conditions.

The top management is responsible of managing, developing the risk management strategies, policies and application principles approved by the board of directors, reporting of major risks that the Bank is facing to the board of directors, assessment of internal control, internal audit and risk reports of departments and either eliminating risks, deficiencies or defects identified in these departments or taking the necessary precautions to prevent those, and participating in determination of risk limits.

The risk management activities are structured under the responsibility of the Bank's board of directors. Risk Committee, with its all members from board of directors, supervises corporate risk management policy and practices, manages the various risks present in the Bank activities, as well as capital adequacy, planning and liquidity adequacy. The risks such as corporate risk management policy and aplication review, capital adequacy, planning and liquidity coverage are at the responsibility of risk management composed of the members of board. The top management is responsible to the board of directors for monitoring and managing of risks. Besides, the following departments participate in monitoring of risks, independent from the departments having operational activities; Internal Control, Risk Management, Compliance and Internal Audit.

The risks are evaluated on a continuously developing structure that is managed by internationally accepted applications and in compliance with the Bank's policies and procedures and the international and local regulations.

The risks are also managed through risk mitigations using hedging transactions beside measurement, limitation and capital allocation techniques. The data of the Bank and the market are regularly monitored for better risk monitoring and management. As part of limitation of risks, internal limits are also set beside the legal limits. The possible changes in economic conditions and the risks that can be faced under extraordinary conditions are taken into consideration.

In order to ensure the compliance with the rules altered pursuant to the relevant articles of the Turkish Banking Law No. 5411 and of Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks published in the Official Gazette dated 11 July 2014, the Bank periodically reviews the current written policies and implementation procedures regarding management of each risk encountered in its activities. The Bank also conducts internal capital adequacy assessment process (ICAAP) within the scope of the same regulation on both consolidated and bank-only basis. The main target of this process is to maintain the Bank's capital adequacy, considering the Bank's strategies, credit growth expectations, assets and liabilities structure, future funding sources and liquidity, dividend policy and possible fluctuations in capital requirement due to economic cycle, by being compatible with its risk profile and risk appetite.

In this scope, possible internal capital requirement is assessed as of every year-end for following 3 years, in line with current capital structure, in the frame of the Bank's activities and risks exposed, and the Bank's future target and strategies. This assessment includes market, credit, operational risks, which are directly related with regulatory capital adequacy ratio, and also interest rate risk in banking book, liquidity risk, regutation risk, concentration risk, strategic risk, and country and transfer risk.

26 Financial risk management disclosures (continued)

Audit Committee

The audit committee consists of two members of the board of directors who do not have any executive functions. The audit committee, which was established to assist the board of directors in its auditing and supervising activities, is responsible for:

- Monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

Liquidity Risk Management Committee

- Determining the excess liquidity that the Bank holds in foreign currencies;
- Periodically monitoring the liquidity report and early-warning signals;
- Determining the stress level of the Bank; monitoring internal and external factors that might affect the Bank's liquidity in case of a liquidity crisis;
- Ensuring that the action plan aligned with the Contingency Funding Plan is properly implemented;
- Determining measures required by the Bank's customer confidence, cost of funding and key liquidity increasing strategies, and ensuring internal communication and coordination with regard to the implementation of committee decisions.

Other Committees

Market, credit and operational sub-risk committees have been established in order to facilitate exchange of information and views with the relevant units of the Bank and to promote the use of risk management and internal audit systems within the Bank.

26.1 Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 25. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

Swaps

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

26 Financial risk management disclosures (continued)

Futures and forwards

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

26.2 Trading activities

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

The Bank and its affiliates' counterparty credit exposure at the date of the statement of financial position from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

26 Financial risk management disclosures (continued)

Market risk

Market Risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

All trading instruments are subject to market risk. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions.

The board of directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the board of directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

Market risks arising from trading portfolios are measured by the Bank as per "standard" and "value at risk (VaR)" methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting. In the VaR calculation, one year historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. Beside the VaR limits, the limits on transaction, trader, position, stop-loss approved by the board of directors for trading portfolio are also applied for limiting the market risk.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as set out by the BRSA and reported monthly on a bank-only basis and quarterly on a consolidated basis.

26.3 Non-trading activities

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

Liquidity risk

Liquidity risk is defined as the risk that the Bank may not be able to fullfil its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its affiliates.

Liquidity Risk is managed by Asset and Liability Management Department (ALMD) and Asset and Liability Committee (ALCO) in line with risk management policies and risk appetite approved by the board of directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and balance sheet structure. Under stressed conditions, liquidity risk is managed within the Contingency Funding Plan framework.

26 Financial risk management disclosures (continued)

The board of directors reviews the liquidity risk management strategy, policy and practices, and approves the liquidity strategy and policies within the framework of risk management strategy and policies, ensures the effective of practice of policies and integrations with Bank's risk management strategy. It determines the basic metrics in liquidity risk measurement and monitoring. It establishes risk appetite of the Bank in liquidity risk management and identifies the risk limits in accordance with the risk appetite and reviews it regularly.

ALCO takes necessary decisions which will be executed by related departments by assessing the liquidity risk that the Bank is exposed to and considering the Bank's strategy and conditions of competition and pursues the implementations.

ALMD, performs daily liquidity management by ensuring compliance with regulatory and internal liquidity limits and monitoring related early warning indicators in case of probable liquidity squeezes. The medium and long term liquidity and funding management is performed by ALMD in accordance with ALCO decisions.

Risk Management Department defines the Bank's liquidity risk, measures and monitors the risks with liquidity risk measurement methods that are in compliance with international standards, presents measurement results periodically to related departments, committees and senior management. Risk Management Department coordinates related parties in order to ensure compliance of risk management process in accordance with the Bank's risk profile, operation environment and strategic plan with regulations. Risk Management Department analyses, develops and revises relevant liquidity risk measurement methods and models in accordance with changing market conditions and the Bank's structure. Risk Management Department reviews assumptions and parameters used in liquidity risk analysis.

The liquidity risk analysis and the important early warning signals are reported monthly to related senior management. Additionally, analysis and monitored internal ratios related to liquidity risk are presented in ALCO report. Internal liquidity metrics are monitored with limit and alert levels approved by the board of directors and reported regularly to related parties.

Decentralized management approach is adopted in the Bank's liquidity management. Each subsidiary controlled by the Bank performs daily, medium and long term liquidity management independently from the Bank by the authorities in each subsidiary responsible for managing liquidity risk. In addition, within the scope of consolidated risk management, liquidity and funding risk of each subsidiary in control are monitored via the liquidity risk management methods identified by the Bank by considering the operations, risk profile and regulations of the related subsidiary. Also, in increasing market volatility and liquidity deficit environments, cash flows of especially financial subsidiaries are monitored with the Bank's cash flow on a consolidated basis.

The Bank's funding management is carried out in compliance with the ALCO decisions. Funding and placement strategies are developed by assessing liquidity of the Bank.

In liquidity risk management actions that will be taken and procedures are determined by considering normal economic conditions and stress conditions.

Diversification of assets and liabilities is assured so as to be able to continuously meet the obligations, also taking into account the relevant currencies. Funding sources are monitored actively during identification of concentration risk related to funding. The Bank's funding base of customer deposits, interbank and other borrowing transactions are diversified in order to prevent the concentration of a particular funding source. Factors that could trigger the sudden and significant run off in funds or impair the accessibility of the funding sources are analyzed. Additionally, securities which are eligible as collateral at CBRT issued by Republic of Turkey Treasury and have active secondary market are comprised in the Bank's assets.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

In the context of TL and foreign currencies liquidity management, the cash flows regarding assets and liabilities are monitored and the required liquidity in future periods is forecasted. In cash flow analysis, stress is applied to items that affect the liquidity by volume and rate of change from a liquidity management point of view.

Liquidity risk exposed by the Bank is managed by establishing risk appetite, risk mitigation according to the liquidity and funding policies (diversification of funding sources, holding high quality liquid assets reserve) and effective control environment and closely monitoring by limits. For those risks that cannot be reduced, the adoption of the current level of risk, reduction or termination of the activities that cause the risk is considered.

In liquidity risk stress testing framework, the level of the Bank's ability to cover cash outflows in liquidity crisis scenario based on the Bank's current cash flow structure, by high quality liquid assets is calculated. Scenario analysis are performed by assessing changing balance sheet structure, liquidity requirements and market conditions.

The results of liquidity risk stress testing are taken into consideration in the assessment of liquidity adequacy and identification of strategy, policy and procedures regarding liquidity risk and contingency funding plan is prepared within this framework.

There exists "Liquidity Risk Management Contingency Funding Plan" in the Bank including mechanisms to prevent increase in liquidity risk during normal and liquidity crisis scenarios for different conditions and levels. Available liquidity sources are determined by considering the liquidity squeezes. Within the framework of this plan, the Bank monitors liquidity risk in terms of early warning indicators, stress levels determined according to probable scenarios and severity of the crisis and possible actions that can be taken in each stress level. In determination of the stress level in the plan, early warning indicators are taken into consideration.

The table below presents the last three months' consolidated liquidity ratios in accordance with the BRSA regulations:

Period	**TL+FC**	**FC**
31 October 2016	109.44%	83.64%
30 November 2016	112.29%	95.90%
31 December 2016	105.17%	80.63%

Exposure to liquidity risk

Liquidity Coverage Ratio (LCR), aims for the banks having the ability to cover 30 days of liquidity needs with their own cash and high quality liquid assets that are easy to convert to cash during liquidity shortages in the markets. With that perspective and according to "Regulation for Banks' Liquidity Coverage Ratio Calculations" terms LCR ratio is calculated by having high quality liquid assets divided by net cash outflows. After a transition period that will end by 1 January 2019, in both bank-only and consolidated basis, LCR ratio should be at least 80% for foreign currency and 100% for total.

The Bank's banking affiliate in the Netherlands is subject to liquidity coverage ratio requirements as per the rules of Capital Requirement Regulation. In addition, the Dutch Central Bank applies a national liquidity regulation, where the bank is required to have a positive liquidity gap in stress test scenario.

The Bank's banking affiliate in Romania calculates the liquidity ratio as a ratio of effective liquidity in local currency equivalent to necessary liquidity in local currency equivalent for several individual time buckets (<1 month, 1-3 months, 3-6 months, 6-12 months, >1 year) and each ratio for each bucket should be >1.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2016							
	Demand Accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	6,643,742	-	-	-	-	-	-	6,643,742
Financial assets at fair value through profit or loss	77,971	4,900	10,818	5,556	45,915	12,481	-	157,641
Loans and advances to banks	10,820	741,001	144,448	384,187	1,332	-	-	1,281,788
Loans and advances to customers	195,607	27,582,736	12,189,593	28,812,844	36,513,964	7,738,412	425,010	113,458,166
Derivative financial assets	-	1,003,306	717,669	1,252,424	589,910	145,263	-	3,708,572
Other assets	243,947	593,132	22,468	31,831	12,361	2,305	1,501,691	2,407,735
Investment securities	40,794	33,016	483,269	413,542	14,758,348	14,907,242	-	30,636,211
Deferred tax asset	-	-	-	-	-	-	821,376	821,376
Total Turkish Lira monetary assets	7,212,881	29,958,091	13,568,265	30,900,384	51,921,830	22,805,703	2,748,077	159,115,231
Foreign Currency								
Cash and balances with central banks	2,484,584	2,472,937	-	-	-	-	-	4,957,521
Financial assets at fair value through profit or loss	876,298	-	715	153	16,728	34,764	-	928,658
Loans and advances to banks	4,708,507	2,266,466	1,566,687	1,866,083	3,591,666	-	-	13,999,409
Loans and advances to customers	223,927	7,172,393	5,897,211	21,631,225	39,570,670	16,817,869	1,217,332	92,530,627
Derivative financial assets	-	-	49,591	71,675	142,866	307,723	-	571,855
Other assets	180,089	14,121,009	19,509	20,615	44,922	16,231	37,251	14,439,626
Investment securities	177,828	129,790	3,073	266,623	5,591,586	10,287,840	-	16,456,740
Deferred tax asset	-	-	-	-	-	-	35,221	35,221
Total foreign currency monetary assets	8,651,233	26,162,595	7,536,786	23,856,374	48,958,438	27,464,427	1,289,804	143,919,657
Total Monetary Assets	15,864,114	56,120,686	21,105,051	54,756,758	100,880,268	50,270,130	4,037,881	303,034,888
MONETARY LIABILITIES								
Turkish Lira								
Deposits	19,004,321	46,208,272	8,925,332	1,835,536	6,436	-	-	75,979,897
Obligations under repurchase agreements and money market fundings	-	10,496,625	207,400	-	-	-	-	10,704,025
Loans and advances from banks and other institutions	-	904,046	527,574	1,247,920	546,550	-	-	3,226,090
Bonds payable	-	563,901	1,689,471	2,784,758	934,208	-	-	5,972,338
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	790,117	706,280	1,069,600	603,875	17,963	-	3,187,835
Other liabilities, accrued expenses and provisions	292,630	8,604,765	351,803	13,130	-	-	1,924,873	11,187,201
Total Turkish Lira monetary liabilities	19,296,951	67,567,726	12,407,860	6,950,944	2,091,069	17,963	1,924,873	110,257,386
Foreign Currency								
Deposits	27,729,059	47,119,181	13,949,113	12,106,372	1,737,770	22,199	-	102,663,694
Obligations under repurchase agreements and money market fundings	87	-	-	218,895	259,140	48,046	-	526,168
Loans and advances from banks and other institutions	-	1,354,751	1,543,145	19,071,656	15,652,938	6,479,364	-	44,101,854
Bonds payable	-	85,933	-	2,369,284	7,288,795	2,129,990	-	11,874,002
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	14,385	25,503	102,553	85,068	644,183	-	871,692
Other liabilities, accrued expenses and provisions	904,082	312,061	111,385	55,893	815	3,848	197,691	1,585,775
Total foreign currency monetary liabilities	28,633,228	48,886,311	15,629,146	33,924,653	25,024,526	9,327,630	197,691	161,623,185
Total Monetary Liabilities	47,930,179	116,454,037	28,037,006	40,875,597	27,115,595	9,345,593	2,122,564	271,880,571

(Currency: Thousands of Turkish Lira (TL))

	31 December 2015							
	Demand Accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	2,232,969	-	-	-	-	-	-	2,232,969
Financial assets at fair value through profit or loss	46,415	4,290	18,813	20,186	255,335	15,683	-	360,722
Loans and advances to banks	12,090	359,053	255,374	384,137	-	-	-	1,010,654
Loans and advances to customers	177,200	25,586,430	10,772,947	24,310,309	29,024,574	6,355,997	(134,282)	96,093,175
Derivative financial assets	-	357,444	208,887	805,277	532,557	157,150	-	2,061,315
Other assets	61,285	330,050	23,510	27,295	9,859	3,127	1,148,125	1,603,251
Investment securities	36,661	545,535	92,089	3,564,412	12,161,308	14,891,514	-	31,291,519
Deferred tax asset	-	-	-	-	-	-	973,920	973,920
Total Turkish Lira monetary assets	2,566,620	27,182,802	11,371,620	29,111,616	41,983,633	21,423,471	1,987,763	135,627,525
Foreign Currency								
Cash and balances with central banks	4,121,492	447,647	-	-	-	-	-	4,569,139
Financial assets at fair value through profit or loss	244,556	-	6,304	144	26,983	21,484	-	299,471
Loans and advances to banks	4,145,901	3,218,509	537,176	1,003,214	4,462,633	-	-	13,367,433
Loans and advances to customers	106,043	5,764,896	5,790,213	19,319,191	33,513,594	13,942,402	1,152,178	79,588,517
Derivative financial assets	-	2,149	2,215	24,992	138,006	178,998	-	346,360
Other assets	134,012	21,513,617	14,848	18,706	16,617	13,877	56,597	21,768,274
Investment securities	311,899	42,336	18,437	305,102	4,240,385	9,863,145	-	14,781,304
Deferred tax asset	-	-	-	-	-	-	39,632	39,632
Total foreign currency monetary assets	9,063,903	30,989,154	6,369,193	20,671,349	42,398,218	24,019,906	1,248,407	134,760,130
Total Monetary Assets	11,630,523	58,171,956	17,740,813	49,782,965	84,381,851	45,443,377	3,236,170	270,387,655
MONETARY LIABILITIES								
Turkish Lira								
Deposits	14,634,342	38,696,247	11,784,139	1,028,267	45,880	-	-	66,188,875
Obligations under repurchase agreements and money market fundings	-	12,969,582	2,349	-	-	-	-	12,971,931
Loans and advances from banks and other institutions	-	746,972	583,489	545,485	1,771,884	-	-	3,647,830
Bonds payable	-	338,130	1,309,030	2,170,048	722,975	-	-	4,540,183
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	408,125	265,148	1,186,464	426,513	75,316	-	2,361,566
Other liabilities, accrued expenses and provisions	191,300	7,502,967	459,492	12,870	583	-	1,710,852	9,878,064
Total Turkish Lira monetary liabilities	14,825,642	60,662,023	14,403,647	4,943,134	2,967,835	75,316	1,710,852	99,588,449
Foreign Currency								
Deposits	23,704,722	36,108,674	14,475,645	14,248,616	1,371,869	16,054	-	89,925,580
Obligations under repurchase agreements and money market fundings	-	616,969	219,109	2,530,104	190,167	39,516	-	3,595,865
Loans and advances from banks and other institutions	-	1,519,935	1,346,699	13,981,234	14,027,900	5,436,336	-	36,312,104
Bonds payable	-	-	58,391	1,194,078	6,418,318	3,300,627	-	10,971,414
Subordinated liabilities	-	-	14,406	14,396	116,594	14,396	-	159,792
Derivative financial liabilities	-	8,521	15,481	62,608	259,021	166,351	-	511,982
Other liabilities, accrued expenses and provisions	1,161,410	313,412	161,122	37,272	921	658	92,326	1,767,121
Total foreign currency monetary liabilities	24,866,132	38,567,511	16,290,853	32,068,308	22,384,790	8,973,938	92,326	143,243,858
Total Monetary Liabilities	39,691,774	99,229,534	30,694,500	37,011,442	25,352,625	9,049,254	1,803,178	242,832,307

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its financial affliates' financial liabilities as per their earliest likely contractual maturities.

	2016							
	Carrying Value	Nominal Principal Outflows	Demand	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years
Deposits	178,643,591	177,999,198	46,709,976	93,007,155	22,744,658	13,787,977	1,727,342	22,090
Obligations under repurchase agreements and money market fundings	11,230,193	11,219,661	87	10,487,138	207,000	218,765	259,140	47,531
Loans and advances from banks and other Institutions	47,327,944	47,043,276	-	2,160,935	1,982,642	20,276,452	16,182,710	6,440,537
Bonds payable	17,846,340	17,490,176	-	641,159	1,683,472	5,112,095	7,955,147	2,098,303
Subordinated liabilities	-	-	-	-	-	-	-	-
Total Monetary Liabilities	255,048,068	253,752,311	46,710,063	106,296,387	26,617,772	39,395,289	26,124,339	8,608,461

	2015							
	Carrying Value	Nominal Principal Outflows	Demand	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years
Deposits	156,114,455	155,534,497	38,311,491	74,518,267	26,125,705	15,158,334	1,404,773	15,927
Obligations under repurchase agreements and money market fundings	16,567,796	16,547,426	-	13,576,686	221,241	2,520,164	190,025	39,310
Loans and advances from banks and other institutions	39,959,934	39,732,456	-	2,201,943	1,843,153	14,482,064	15,795,528	5,409,768
Bonds payable	15,511,597	15,171,941	-	331,134	1,353,146	3,343,310	7,026,530	3,117,821
Subordinated liabilities	159,792	158,355	-	-	14,396	14,396	115,167	14,396
Total Monetary Liabilities	228,313,574	227,144,675	38,311,491	90,628,030	29,557,641	35,518,268	24,532,023	8,597,222

Market risk

Interest rate risk: The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

26 Financial risk management disclosures (continued)

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have no defined maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	31 December 2016						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	9,353,481	-	-	-	-	2,247,782	11,601,263
Financial assets at fair value through profit or loss	8,122	29,640	5,728	43,336	44,354	955,119	1,086,299
Loans and advances to banks	4,905,102	2,398,325	3,118,568	24,279	222,120	4,612,803	15,281,197
Loans and advances to customers	50,606,890	26,654,682	61,102,024	52,927,243	12,770,423	1,927,531	205,988,793
Other assets	10,737,488	730	8,448	16,494	2,306	10,362,322	21,127,788
Investment securities	3,112,637	7,756,567	11,185,254	9,285,204	11,810,425	3,942,864	47,092,951
Deferred tax asset	-	-	-	-	-	856,597	856,597
Total Monetary Assets	78,723,720	36,839,944	75,420,022	62,296,556	24,849,628	24,905,018	303,034,888
MONETARY LIABILITIES							
Deposits	99,424,998	22,758,896	13,862,911	1,640,164	13,467	40,943,155	178,643,591
Obligations under repurchase agreements and money market fundings	10,487,138	207,000	218,766	259,140	47,531	10,618	11,230,193
Loans and advances from banks and other institutions	14,591,446	17,544,924	9,181,554	5,517,061	178,429	314,530	47,327,944
Bonds payable	676,288	1,760,757	5,112,095	7,842,731	2,098,305	356,164	17,846,340
Subordinated liabilities	-	-	-	-	-	-	-
Other liabilities, accrued expenses and provisions	-	-	-	-	-	16,832,503	16,832,503
Total Monetary Liabilities	125,179,870	42,271,577	28,375,326	15,259,096	2,337,732	58,456,970	271,880,571

	31 December 2015						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	2,099,364	-	-	-	-	4,702,744	6,802,108
Financial assets at fair value through profit or loss	13,237	31,597	226,676	64,627	34,920	289,136	660,193
Loans and advances to banks	5,595,450	2,455,707	2,493,892	8,924	-	3,824,114	14,378,087
Loans and advances to customers	42,364,614	24,499,855	51,195,710	44,622,908	11,780,806	1,217,799	175,681,692
Other assets	805,963	-	-	-	3,126	24,970,111	25,779,200
Investment securities	1,943,865	10,146,778	11,090,909	8,686,541	11,076,840	3,127,890	46,072,823
Deferred tax asset	-	-	-	-	-	1,013,552	1,013,552
Total Monetary Assets	52,822,493	37,133,937	65,007,187	53,383,000	22,895,692	39,145,346	270,387,655
MONETARY LIABILITIES							
Deposits	80,169,766	26,191,936	15,265,914	1,221,025	5,862	33,259,952	156,114,455
Obligations under repurchase agreements and money market fundings	13,576,686	221,241	2,520,164	190,025	39,310	20,370	16,567,796
Loans and advances from banks and other institutions	14,543,784	14,504,579	4,782,467	5,715,968	185,658	227,478	39,959,934
Bonds payable	1,272,460	1,431,663	2,416,522	6,933,473	3,117,821	339,658	15,511,597
Subordinated liabilities	-	-	158,355	-	-	1,437	159,792
Other liabilities, accrued expenses and provisions	-	-	-	-	-	14,518,733	14,518,733
Total Monetary Liabilities	109,562,696	42,349,419	25,143,422	14,060,491	3,348,651	48,367,628	242,832,307

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

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

	2016			
	US$ %	***EUR %***	***TL %***	***Other Currencies %***
Assets				
Loans and advances to banks	1-4	1-2	1-16	1
Debt and other fixed or floating income instruments	3-12	1-5	7-15	10
Loans and advances to customers	1-11	1-13	1-27	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-2	1-7	-	1-5
- Bank deposits	1-2	1-2	1-11	1-2
- Saving deposits	-	-	7-10	-
- Commercial deposits	-	-	7-15	-
- Public and other deposits	-	-	11	-
Obligations under repurchase agreements and money market fundings	2-3	-	5-11	-
Loans and advances from banks and other institutions	1-5	1-5	10-25	1-4
Bonds payable	5	3	1-11	1-5

	2015			
	US$ %	***EUR %***	***TL %***	***Other Currencies %***
Assets				
Loans and advances to banks	1-8	1-2	1-15	1
Debt and other fixed or floating income instruments	1-12	1-6	1-15	3-16
Loans and advances to customers	1-7	1-14	1-33	1-28
Liabilities				
Deposits:				
- Foreign currency deposits	1-4	1-9	-	1-12
- Bank deposits	1-2	1-2	6-12	1-11
- Saving deposits	-	-	7-11	-
- Commercial deposits	-	-	8-15	-
- Public and other deposits	-	-	11	-
Obligations under repurchase agreements and money market fundings	1-3	1	6-14	1-12
Loans and advances from banks and other institutions	1-6	1-6	1-16	1-12
Bonds payable	1-6	1-5	8-12	1-6

26 Financial risk management disclosures (continued)

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

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

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

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

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

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

Currency risk

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations. The Bank and its affiliates’ main foreign operations are in the Netherlands and Romania. The measurement currencies of its operations are Euro and Romanian Leu. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL. The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved. The foreign currency exchange risk of the Bank is managed through transaction, trader, position and stop-loss limits approved by the board of directors for the trading portfolio beside the foreign currency net position standard ratio and the VaR limit. The Bank and its affiliates’ transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of income. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

These exposures are as follows:

	2016			
	US$	***EUR***	***Other Currencies***	***Total***
Assets				
Cash and balances with central banks	413,589	4,372,095	171,837	4,957,521
Financial assets at fair value through profit or loss	51,198	1,162	876,298	928,658
Loans and advances to banks	7,719,861	5,328,598	950,950	13,999,409
Loans and advances to customers	50,589,133	38,733,539	3,207,955	92,530,627
Other assets	10,800,715	3,436,537	774,229	15,011,481
Investment securities	13,712,057	2,741,225	3,458	16,456,740
Investments in equity participations	-	1,050	569	1,619
Tangible and intangible assets	266	101,988	76,394	178,648
Deferred tax asset	-	-	35,221	35,221
Total Assets	*83,286,819*	*54,716,194*	*6,096,911*	*144,099,924*
Liabilities				
Deposits	60,188,250	34,659,383	7,816,061	102,663,694
Obligations under repurchase agreements and money market fundings	266,941	259,140	87	526,168
Loans and advances from banks and other institutions	30,585,483	13,369,545	146,826	44,101,854
Current and deferred tax liability	-	1,009	1,107	2,116
Bonds payable	8,690,657	2,192,240	991,105	11,874,002
Other liabilities, accrued expenses and provisions	1,960,392	362,041	132,918	2,455,351
Total Liabilities	*101,691,723*	*50,843,358*	*9,088,104*	*161,623,185*
Net Statement of Financial Position	*(18,404,904)*	*3,872,836*	*(2,991,193)*	*(17,523,261)*
Net Off Balance Sheet Position	*18,158,120*	*(3,599,702)*	*3,500,310*	*18,058,728*
Net Long/(Short) Position	*(246,784)*	*273,134*	*509,117*	*535,467*

	2015			
	US$	***EUR***	***Other Currencies***	***Total***
Total Assets	*84,165,368*	*42,524,127*	*8,240,541*	*134,930,036*
Total Liabilities	*91,320,718*	*44,319,606*	*7,603,534*	*143,243,858*
Net Statement of Financial Position	*(7,155,350)*	*(1,795,479)*	*637,007*	*(8,313,822)*
Net Off Balance Sheet Position	*7,542,704*	*2,060,338*	*(122,494)*	*9,480,548*
Net Long/(Short) Position	*387,354*	*264,859*	*514,513*	*1,166,726*

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies. The effective exchange rates at the balance sheet date announced by the Bank in TL are 3.5130 for US dollars and 3.7020 for Euro.

The short positions in the statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

Credit risk

The Bank and its affiliates are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank developed a statistical-based internal risk rating model for its credit portfolio of corporate/commercial/medium-size companies. This internal risk rating model has been in use for customer credibility assessment since 2003 and is currently being reviewed and updated. Risk rating has become a requirement for loan applications, and ratings are used both to determine credit authorization limits and in credit assessment process.

The concentration table of the cash and non-cash loans for the Bank according to the risk rating system for its customers defined as corporate, commercial and small-size enterprises is presented below:

	2016	***2015***
	%	***%***
Above Average	40	40
Average	48	50
Below Average	12	10
	100	100

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting process for retail and credit card portfolios. Behavioural scorecards are also used for these portfolios.

The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 24).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

Exposure to credit risk

	Loans and advances to customers	
	2016	***2015***
Individually impaired	6,910,833	6,090,168
Allowance for impairment	(5,210,967)	(5,456,587)
Carrying amount	1,699,866	633,581
Portfolio basis allowance	(3,036,025)	(1,759,922)
Loans past due but not impaired and loans under follow-up(*)	8,286,780	4,182,192
Carrying amount	8,286,780	4,182,192
Neither past due nor impaired	189,191,150	165,579,230
Loans with renegotiated terms	9,847,022	7,046,611
Carrying amount	199,038,172	172,625,841
Total carrying amount	205,988,793	175,681,692

(*) The majority of the loans past due but not impaired include loans past due up to three months.

Impaired loans

Impaired loans are loans for which the Bank 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 agreement due to lack of assets, high debtness ratio, insufficient working capital and/or equity of the customer.

Sectoral and geographical concentration of impaired loans

The Bank and its affiliates monitor concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of non-performing loans and lease receivables is shown below:

	2016	***2015***
Consumer loans	2,677,827	2,671,683
Construction	540,481	325,767
Transportation and logistics	508,102	201,586
Service sector	412,915	335,607
Transportation vehicles and sub-industries	358,314	201,704
Food	274,702	244,694
Energy	268,805	237,241
Textile	256,196	298,488
Metal and metal products	221,210	293,942
Agriculture and stockbreeding	218,944	218,503
Tourism	151,142	164,772
Chemistry and chemical products	105,505	95,774
Paper and paper products	99,307	83,405
Durable consumption	79,754	94,638
Others	737,629	622,364
Total non-performing loans, factoring and lease receivables	6,910,833	6,090,168

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

	2016	2015
Turkey	5,699,489	4,683,987
Romania	642,856	804,845
Malta	265,859	99,856
Switzerland	105,596	88,084
England	79,118	85,514
Cyprus	26,029	27,510
Ukraine	23,398	106,375
Others	68,488	193,997
Total non-performing loans, factoring and lease receivables	6,910,833	6,090,168

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that individual impairment is not appropriate on the basis of the level of collateral available and the customer's current activities, assets and financial position.

Renegotiated loans

Loans are generally renegotiated either as part of the on-going banking relationship with a creditworthy customer or in response to a borrower's financial difficulties. In the latter case, renegotiation encompasses not only revisions to the terms of a loan such as a maturity extension, a payment moratorium, a concessionary rate of interest but also the restructuring of all or part of the exposure.

Allowances for impairment

The Bank 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 portfolio-basis 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 Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the board of directors.

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its affiliates currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016 or 2015.

As part of its statutory capital adequacy calculations, and as per the legislation revised accounting to the Basel II requirements and effective from 1 July 2012, the Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals in compliance with the relevant local legislation. In

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

the credit risk mitigation, cash and cash equivalent items and high-credit-quality debt instruments are used. The volatility adjustments regarding the receivables, collaterals and currency mismatch of the collaterals are made as per the standard volatility-adjustment approach defined in the relevant regulation. In cases where there are maturity mismatches resulted from shorter remaining life of collateral than of receivables, the value of collateral is considered as the volatility-adjusted value.

The fair value of collateral held against non-performing loans and receivables, is presented below, as per the collateral type, up to the outstanding total amount of exposures:

	2016	2015
Mortgages	1,724,097	1,178,270
Pledge assets	514,220	505,952
Promissory notes	489,012	693,470
Cash collateral	3,750	17,416
Unsecured	4,179,754	3,695,060
	6,910,833	6,090,168

The amounts reflected in the tables above represent the maximum accounting loss that would be recognized at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

Operational risks

Operational risk expresses the probability of loss that may arise from the overlook of faults and inconsistency with the established rules due to the deficiencies in the Bank and its affiliates' internal controls, manner of the management and the personnel that are not in coherence with time and conditions, deficiencies in the bank management, faults and problems in information technology systems and disasters such as earthquake, fire, flood or terror attacks.

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

Currently, the value at operational risk is calculated according to the basic indicator approach as per the Article 23 of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as pronounced by the BRSA.

The annual gross income is defined as net interest income plus net non-interest income reduced by realised gains/losses from the sale of securities available-for-sale and held-to-maturity, non-recurring gains and income derived from insurance claims. The result is added to risk weighted assets in the capital adequacy calculation.

Capital management – regulatory capital

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

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, other comprehensive income, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.

26 **Financial risk management disclosures** (continued)

- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2014.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006 but later revised in the Official Gazette no.28756 dated 5 September 2013. The Bank's process of internal capital requirements is assessed under the regulation on the "Internal Systems and Internal Capital Adequacy Assesment Processes of Banks" published in the Official Gazette no. 29057 dated 11 July 2014. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

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

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

(Currency: Thousands of Turkish Lira (TL))

26 Financial risk management disclosures (continued)

The Bank's and its affiliates' regulatory capital positions on consolidated basis as of 31 December 2016 and 2015, are as follows:

	2016	2015
Tier 1 capital	35,120,258	30,968,875
Tier 2 capital	2,889,903	2,817,785
Deductions from capital	(93,350)	(1,120,150)
Total regulatory capital	37,916,811	32,666,510
Value at credit, market and operational risks	258,425,540	241,514,612
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	14.67	13.53
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	13.59	12.82

26.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

From time to time, the Bank enters into various interest rate swap transactions in order to hedge its certain cash flow or fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

In this respect, the Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of USD 500,000,000, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face value amount and conditions. In June 2012, the Bank ceased to apply hedge accounting and accordingly fair value calculations for these bonds. The accumulated fair value differences incurred starting from the date of hedge accounting up to the date on which it was ceased, are amortized as per the effective interest-rate method in compliance with IAS 39.

The Bank also applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 2,648,197 thousands, USD 1,089,994,701 and EUR 150,619,549 and for its bonds with a total face value of TL 1,005,000 thousands and USD 265,400,000 and fixed-rate coupons for its fixed-rate loans with a total principal of RON 98,288,042 by designating interest rate swaps and cross currency swaps with the same face values and terms. Accordingly, in the current period, gain of TL 492 thousands and a loss of TL 14,515 thousands (2015: a gain of TL 65,397 thousands and a loss of TL 48,755 thousands resulting from outstanding transactions at that date) resulted from the related fair value calculations for the hedged loans and bonds were accounted for under trading income/losses in the income statement, respectively.

26 Financial risk management disclosures (continued)

In addition; the Bank also entered into cross currency swap agreements in order to hedge its fixed-rate bonds issued for a total principal value of AUD 175,000,000 and RON 85,500,000 with the same face values and terms. Accordingly, in the current period, a loss of TL 13,071 thousands (2015: TL 13,669 thousands resulting from outstanding transactions at that date) resulted from the fair value changes of the securities issued and funds borrowed subject to hedge accounting were accounted for under trading income/losses in the income statement.

The Bank applied cash flow hedge accounting for its funds borrowed amounting to USD 79,827,027 and EUR 39,473,684, securitization borrowings amounting to USD 102,083,335 and EUR 154,289,472 by designating cross currency swaps with the same face values and terms, and eurobonds with a total nominal value of USD 10,000,000, the collateralised borrowings amounting to TL 500,000 thousands and USD 250,000,000, borrowings amounting to USD 650,000,000, securitizations amounting to USD 500,000,000 and deposits amounting to USD 300,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, gains of TL 46,482 thousands and TL 39,553 thousands (2015: gains of TL 70,700 thousands and TL 4,946 thousands resulting from outstanding transactions at that date) resulting from cross currency and interest rate swap agreements were recognised under shareholders’equity.

One of the Bank’s consolidated affiliates associated its contractual operational lease receivables (contractual future cash flows) denominated in EUR with its EUR denominated borrowings and other foreign currency borrowings converted to EUR currency through swap transactions and applied cash flow hedge accounting. The foreign currency exposures in operational lease receivables are hedged and accordingly the effective portion of foreign currency gains/losses of non-derivative hedging instruments designated for hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in income. As of 31 December 2016, a negative amount of TL 72,742 thousands (net of deferred taxes) was recognised under shareholders’ equity as the hedging reserve (2015: TL 22,976 thousands).

One of the Bank’s consolidated affiliate enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments due to fluctuations in market interest rates. In this respect, the affiliate applied fair value hedge accounting for fixed rate eurobonds with a total face value of USD 234,393,000 and EUR 145,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net gain of TL 7,607 thousands (2015: -) resulting from the related fair value calculations for the hedged bonds were accounted for under trading income/losses in the income statement.

One of the Bank’s consolidated affiliate enters into interest rate agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the affiliate applied cash flow hedge accounting for its funds borrowed amounting to USD 319,807,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net gain of TL 863 thousands (2015: -) resulting from interest rate swap agreements were recognised under shareholders' equity.

One of the Bank’s consolidated affiliate enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the affiliate applied cash flow hedge accounting for its loans granted in Turkish Lira by designating swaps with the same face value amount and similar terms; TL 255,000,000 sell and USD 80,076,154 buy, USD 80,076,154 sell and EUR 69,829,075 buy, TL 640,250,000 sell and EUR 180,792,926 buy, CHF 487,510 sell and EUR 447,983 buy, RON 45,000,000 sell and EUR 9,838,216 buy, GBP 54,601,137 sell and EUR 64,600,141 buy, USD 277,591,250 sell and EUR 255,411,187 buy. Accordingly, in the current period, a net loss of TL 1,526 thousands (2015:-) resulting from currency derivative contracts were recognized under shareholder’s equity.

(Currency: Thousands of Turkish Lira (TL))

27 Affiliates, associates and special purpose entities

The table below sets out the consolidated affiliates, associates and special purpose entities of the Bank and its shareholding interests in these entities:

Consolidated entities	**2016**	**2015**
Garanti Bank International NV	100.00	100.00
Garanti Holding BV	100.00	100.00
Garanti Portföy Yönetimi AŞ	100.00	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00	100.00
G Netherlands BV	100.00	100.00
Garanti Bank SA	100.00	100.00
Motoractive IFN SA	100.00	100.00
Ralfi IFN SA	100.00	100.00
Garanti Finansal Kiralama AŞ	100.00	100.00
Garanti Kültür AŞ	100.00	100.00
Garanti Konut Finansmanı Danışmanlık Hiz. AŞ	100.00	100.00
Garanti Ödeme Sistemleri AŞ	99.96	99.96
Garanti Hizmet Yönetimi AŞ	96.40	96.40
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring AŞ	81.84	81.84
Garanti Yatırım Ortaklığı AŞ	3.30	3.30
Garanti Diversified Payment Rights Finance Company ***(a)***	-	-
RPV Company ***(a)***	-	-

(a) *Garanti Diversified Payment Rights Finance Company and RPV Company, are special purpose entities established for the Bank's securitization transactions, as explained in Note 17, and consolidated in the accompanying consolidated financial statements. The Bank or any of its affiliates do not have any shareholding interests in these companies.*

The Bank sold its 1729 shares representing 99.94% of the share capital of GarantiBank Moscow AO and 1 share belonging to a group affiliate Garanti Bilişim Teknolojisi ve Ticaret AŞ to Sovcombank a bank operating in Russia for a purchase price of USD 38,412,834. Accordingly, a loss of TL 35,799 thousands is included in the accompanying consolidated financial statements.

28 Net fee and commission income

	2016	**2015**
Fee and commission income: (*)		
Credit cards fees	2,565,757	2,218,650
Retail banking	542,421	487,008
SME banking	422,318	396,636
Commercial banking	336,634	352,930
Corporate banking	45,150	22,128
Others	298,811	176,471
Total fee and commission income	4,211,091	3,653,823
Fee and commission expense:		
Credit cards fees	823,403	804,778
Retail banking	53,424	31,633
Commercial banking	14,172	4,124
SME banking	5,398	3,497
Corporate banking	581	180
Others	150,784	91,121
Total fee and commission expense	1,047,762	935,333
Net fee and commission income	3,163,329	2,718,490

(*)*Includes cancellations/repayments, by the Bank in the current period, of fees and commissions income recognized in prior years in the amount of TL 110,146 thousands (2015: TL 254,480 thousands) as per the decision of the Turkish Competition Board or the related courts.*

(Currency: Thousands of Turkish Lira (TL))

29 Trading gains/(losses)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading gains/(losses) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	2016	2015
Fixed/floating securities	390,833	590,859
Derivative transactions	215,606	(1,172,132)
Trading gains/(losses), net	606,439	(581,273)

30 Other operating income

	2016	2015
Other operating income:		
Net sales from Garanti Fleet(*)	51,718	102,640
Net sales from Garanti Technology	26,741	44,234
Cheque booklet charge	9,496	8,412
Dividend income	9,088	5,399
Rent income from real estate (including investment property)	8,276	10,467
Others	101,329	49,586
Total operating income	206,648	220,738

(*) *Depreciation expenses of the fleet portfolio are netted-off with the net sales of Garanti Fleet;*

	2016	2015
Net sales	129,389	163,483
Less: Depreciation	(77,671)	(60,843)
Net sales after depreciation	51,718	102,640

31 Other operating expenses

	2016	2015
Saving deposits insurance fund	229,846	199,825
Computer usage expenses	198,871	156,972
Advertising expenses	196,650	145,717
Claim loss from insurance business	136,945	80,824
Utility expenses	107,070	92,982
Repair and maintenance expenses	72,643	93,320
Research and development expenses	59,142	38,782
Stationary expenses	27,475	30,552
Insurance related expenses	22,270	53,486
Others (*)	714,864	861,962
	1,765,776	1,754,422

(*) *Includes lawsuit, execution and other legal expenses beared by the Bank in the current period, of fees and commissions income recognized in prior years but reimbursed, in the amount of TL 56,209 thousands (2015: TL 55,340 thousands), as per the decision of the Turkish Competition Board or the related courts.*

32 Use of estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 26).

Key sources of estimation uncertainty

<u>Allowances for credit losses</u>

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 7.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgement about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances relates to country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the specific allowances depends on the estimated future cash flows for specific counterparties and the assumptions and inputs to the impairment used in determining collective allowances.

<u>Determining fair values</u>

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 23. 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.

Critical accounting judgements in applying the Bank's accounting policies

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

<u>Financial asset and liability classification</u>

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy *(h) Financial instruments*.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy *(h) Financial instruments*.
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy *(h) Financial instruments*.

(Currency: Thousands of Turkish Lira (TL))

32 Use of estimates and judgements (continued)

Securitizations

In applying its policies on securitised financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognized in the Bank's consolidated statement of financial position.
- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognized in the Bank's consolidated statement of financial position.
- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognized from the Bank's consolidated statement of financial position.

Details of the Bank's securitization activities are given in Note 17.

Control over investments

As a bank, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assesing whether it controls the entity, the Bank also reassesses whether or not it controls an invesment when facts and circumstances indicate that there are changes to one or more of the following three elements of control:
- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of its returns.

33 Significant events

- As per the decision made at the annual general assembly of shareholders of the Bank on 31 March 2016, the statutory net income of 2015 was distributed as follows;

2015 INCOME DISTRIBUTION TABLE	
2015 Net Income	**3,406,507**
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	4,723
B – First dividend at 5% of the paid-in capital	210,000
C – Extraordinary reserves at 5% after above deductions	159,826
D – Second dividend to the shareholders	357,000
E – Extraordinary reserves	2,639,258
F – II. Legal reserve (Turkish Commercial Code 519/2)	35,700

- As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. has been completed. In acquisition, the Bank and a consolidated financial affiliate have sold their two shares in Visa Europe Ltd. with a nominal of EUR 10.00 for a consideration of EUR 61,376,433 in cash and 22,284 in "C Type Visa Inc." shares. The income generated from the sale share is recognized under gain on sale of assets in other operating income.

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