Odea Bank A.Ş.

Financial statements at December 31, 2016 together with independent auditor's report

Report on the Audit of the Financial Statements

To the Board of Directors of Odea Bank A.Ş.

Qualified Opinion

We have audited the financial statements of Odea Bank A.Ş. (the "Bank"), which comprise the statement of financial position as at December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the 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 financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for qualified opinion

The accompanying financial statements as at 31 December 2016 include a general reserve for possible risks amounting to thousand TL 223.276, which is provided by the Bank Management for possible results of the circumstances which may arise from possible changes in the economy and market conditions. In addition to that; a deferred tax asset is provided based on this reserve amounting to thousand TL 44.655 in the accompanying financial statements as at 31 December 2016.

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

Responsibilities of the Management and the Board of Directors for the financial statements

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

In preparing the financial statements, the management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The Management and The Board of Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank's internal control.

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

- Conclude on the appropriateness of the Board of Director'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 Bank'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 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 Bank to cease to continue as a going concern.

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

We communicate with the Management and the Board of Directors 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.

The partner in charge of the audit resulting in this independent auditor's report is Fatma Ebru Yücel.
Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst&Young Global Limited

Istanbul, Turkey
March 17, 2017

Odea Bank A.Ş.

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Statement of financial position
as at December 31, 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2016	December 31, 2015
Assets			
Cash and balances with central banks	5	4.718.240	4.074.584
Due from banks	6	327.756	103.739
Money market placements	6	4.412.052	4.061.196
Financial assets at fair value through profit or loss	7	*425.933*	*125.725*
- Financial assets held for trading	7	5.905	24.812
- Derivative financial instruments	7-8	420.028	100.913
Loans and advances to customers	9	26.318.533	21.707.618
Investment securities	10	*1.333.610*	*1.461.627*
- Available-for-sale	10	711.703	811.505
- Available-for-sale pledged as collateral	10	193.752	285.673
- Held-to-maturity	10	341.808	364.449
- Held-to-maturity pledged as collateral	10	86.347	-
Property and equipment	11	129.466	142.902
Intangible assets	12	98.807	99.028
Deferred income tax assets	16	120.267	60.625
Current assets held for sale	13	42.094	29.879
Other assets	13	249.555	136.382
Total assets		**38.176.313**	**32.003.305**
Liabilities			
Deposits	14	29.254.396	25.333.496
Due to banks and money market balances	15	3.665.497	3.133.469
Debt securities issued	15	-	154.995
Subordinated loans and similar debt	15	528.417	436.789
Funds obtained under repurchase agreements	15	2.457	156.858
Derivative financial instruments	8	545.875	142.719
Income taxes payable	16	35.105	-
Employee Benefits	17	62.441	54.623
Other liabilities and accrued expenses	18	288.945	249.554
Other provisions	18	223.276	-
Total liabilities		**34.606.409**	**29.662.503**
Equity			
Share capital	19	3.288.842	1.496.150
Capital contribution	19	-	873.420
Other reserves	20	(30.939)	(43.071)
Retained earnings		105.141	(48.315)
Result of the year		206.860	62.618
Total equity		**3.569.904**	**2.340.802**
Total liabilities and equity		**38.176.313**	**32.003.305**

The accompanying notes set out on pages 6 to 63 form an integral part of these financial statements.

Odea Bank A.Ş.

Statement of income
For the year ended December 31, 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2016	December 31, 2015
Interest income	21	3.027.141	2.400.924
Interest expense	21	(2.047.837)	(1.662.494)
Net interest income		**979.304**	**738.430**
Fee and commission income	22	153.300	125.752
Fee and commission expense	22	(42.242)	(27.518)
Net fee and commission income		**111.058**	**98.234**
Foreign exchange gains, net	23	(24.413)	(20.042)
Net trading and fair value income / (loss)	23	42.790	44.005
Gains from investment securities, net	23	337.033	(1.910)
Other Operating Income		2.625	2.502
Total Operating income		**1.448.397**	**861.219**
Net provisions for credit losses	9	(310.378)	(254.269)
Net Operating income		**1.138.019**	**606.950**
Personnel Expenses	24	286.948	251.722
Other operating expenses	24	291.342	222.329
Depreciation of property and equipment	24	44.406	35.939
Amortization of intangible assets	24	28.783	18.688
Total Operating expenses	**24**	**(651.479)**	**(528.678)**
General reserve for possible risks	**25**	**(223.276)**	**-**
Operating profit/(loss)		**263.264**	**78.272**
Profit/(loss) before income tax		**263.264**	**78.272**
Current income tax credit/(expense)	16	(119.628)	(36.013)
Deferred tax income	16	63.224	20.359
Profit/(Loss) for the year		**206.860**	**62.618**

The accompanying notes set out on pages 6 to 63 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended December 31, 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2016	December 31, 2015
Profit/(Loss) for the year		**206.860**	**62.618**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		-	-
Net gains / (losses) on available-for-sale financial assets		**-**	**-**
- Unrealized net gains / (losses) arising during the year, before tax		(337.734)	(48.093)
- Net amount reclassified to the statement of income, before tax		355.646	(2.410)
Net investment hedges			
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		**-**	**-**
- Net amount reclassified to the statement of income, before tax		-	-
Cash flow hedges		**-**	**-**
- Net losses arising on hedges recognized in other		-	-
comprehensive income, before tax		**-**	**-**
- Net amount reclassified to the statement of income, before tax		-	-
Income tax relating to components of other comprehensive income	16	**(3.582)**	**10.101**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**14.330**	**(40.402)**
Total comprehensive income/(loss) for the year		**221.190**	**22.216**

The accompanying notes set out on pages 6 to 63 form an integral part of these financial statements.

Statement of changes in equity
for the year ended December 31, 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	Share capital	Retained Earnings and result of the year (Note 28)	Other reserves (Note 28)	Capital contribution	Total equity
Balance at January 1, 2014		**1.496.150**	**(48.315)**	**(2.669)**	**699.480**	**2.144.646**
Total comprehensive income/(loss) for the year		-	62.618	(40.402)	-	**22.216**
Capital increase	19	-	-	-	-	**-**
Capital contribution	19	-	-	-	173.940	**173.940**
Balance at December 31, 2015		**1.496.150**	**14.303**	**(43.071)**	**873.420**	**2.340.802**
Total comprehensive income/(loss) for the year		-	206.860	14.330	-	**221.190**
Capital increase(*)	19	1.883.530	-	-	(883.530)	**1.000.000**
Other(*)		(90.838)	90.838	(2.198)	10.110	**7.912**
Balance at December 31, 2016		**3.288.842**	**312.001**	**(30.939)**	**-**	**3.569.904**

(*) The Bank has classified the subordinated loans obtained from to its controlling shareholder Bank Audi sal amounting to USD 100 million and USD 200 million respectively which were previously recognized as Tier II capital in the account of additional Tier I capital. Pursuant to the resolution taken by the Board of Directors of Odea Bank and Article 7 of the Regulation on Equity of Banks, the types of both loans were changed to perpetual and interest-free. As of April 1, 2014 including of the both loans to account of additional Tier I capital was also approved by BRSA.

Pursuant to the approval of BRSA dated December 8, 2015, The Bank, on March 1, 2016, converted into TL the capital contribution which were obtained from its controlling shareholder Bank Audi sal amounting to total USD 300 million, and completed the necessary legal and administrative procedures with the relevant authorities and added its converted amount to TL 883.530 to the paid in capital on March 31, 2016. On August 10, 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L., TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.a.r.l, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

As per Turkish Account Standards 32, the Bank accounted stamp tax expenses and competition board fees resulted from the capital increase transaction amounting TL 2.198 under equity.

Odea Bank A.Ş.

Statement of cash flow
for the year ended December 31, 2016
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2016	December 31, 2015
Cash flows from operating activities			
Net profit/(loss)		206.860	62.618
Adjustments for:			
Amortization of intangible assets	12	28.783	18.688
Depreciation of property and equipment	11	44.406	35.939
Taxes paid	16	51.715	15.654
Other short term employee benefits		(46.950)	(41.138)
Interest accrual		(122.543)	(69.119)
Cash flows from operating profits before changes in operating assets and liabilities		**162.271**	**22.642**
Changes in operating assets and liabilities:			
Net decrease / (increase) in due from banks and cash balances with central banks		212.554	(1.058.015)
Net decrease / (increase) in due from banks		-	-
Net decrease / (increase) in derivative financial instruments		(102.788)	(16.521)
Net decrease / (increase) in loans and advances to customers		(4.411.917)	(3.515.324)
Net (increase) / decrease in other assets		(174.019)	(56.155)
Net (decrease) / increase in customer deposits		3.711.021	3.612.872
Net increase / (decrease) in other liabilities and provisions		25.871	11.017
Net increase / decrease in other borrowed funds		371.785	1.732.532
Other taxes paid		265.783	(21.152)
Income taxes paid		-	-
Net cash from / (used in) operating activities		**(101.710)**	**689.254**
Cash flows from investing activities			
(Purchase of) property and equipment	11	(56.634)	(61.879)
Net book value of property and equipment disposed		2.268	-
(Purchase of) intangible assets, net	12	(221)	(60.274)
(Purchase of) held-to-maturity securities	10	-	-
Redemption or sale of held-to-maturity securities		-	-
(Purchase of) available-for-sale securities	10	(1.684.234)	-
Sale or redemption of available-for-sale securities	10	1.242.048	-
Dividends received		-	-
Other, net		-	-
Net (used in) investing activities		**(496.773)**	**(122.153)**
Cash flows from financing activities			
Repayments of debt securities		(345.661)	375.342
Proceeds from debt securities		190.666	(357.883)
Repayments of borrowed funds and debt securities		(5.292.993)	(2.063.938)
Proceeds from borrowed funds and debt securities		5.700.711	2.480.849
Capital increase (*)		1.000.000	-
Net cash from / (used in) financing activities		**1.252.723**	**434.370**
Net increase / (decrease) in cash and cash equivalents		**816.511**	**1.024.113**
Effects of foreign exchange rate changes on cash and cash equivalents		681.286	62.276
Cash and cash equivalents at beginning of year	5	4.689.699	3.671.063
Cash and cash equivalents at end of year	5	**6.187.496**	**4.757.452**
Operational cash flows from interest:			
Interest paid		1.587.887	1.375.779
Interest received		2.487.382	2.181.237

(*) On August 10, 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L., TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.a.r.l, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

1. General information

Odea Bank A.Ş. (a subsidiary of Bank Audi sal) was established as a deposit bank with USD 300 Million capital with the permission of BRSA numbered 4432 dated October 27, 2011, which was published in the Official Gazette on October 28, 2011, numbered 28098. Odea Bank A.Ş. started its operations in the "foreign banks founded in Turkey" group, by taking operating permission from BRSA numbered 4963 on September 28, 2012, which was published in Official Gazette dated October 2, 2012 numbered 28429.

The Ultimate parent of the Bank is Bank Audi sal.

Pursuant to the approval of BRSA dated December 8, 2015, The Bank, on March 1, 2016, converted into TL the capital contribution which were obtained from its controlling shareholder Bank Audi sal amounting to total USD 300 million, and completed the necessary legal and administrative procedures with the relevant authorities and added its converted amount toTL 883.530 to the paid in capital on March 31, 2016. On August 10, 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L., TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.a.r.l, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

The Bank is registered in Istanbul, Turkey at the following address: Levent 199, Büyükdere Caddesi No:199 Kat: 33-40 Şişli/ İstanbul. As of December 31, 2016, the Bank is operating with 50 branches and 1.681 employees. The independent auditor’s report dated March 17, 2017 is presented preceding the unconsolidated financial statements. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. Summary of significant accounting policies

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

A. Basis of preparation of these financial statements

The financial statements have been prepared on a historical cost basis; except for available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, which have all been measured at fair value.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) including the International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”).

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight Accounting and Auditing Standards Authority, additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”) and other relevant rules promulgated by the Turkish Commercial Code and Tax Regulations. Financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The financial statements are presented in the national currency of the Republic of Turkey the Turkish Lira (“TL”).

2. Summary of significant accounting policies (continued)

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at 31 December 2016 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2016. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Bank.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Bank.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:
• At cost
• In accordance with IFRS 9,
Or
• Using the equity method defined in IAS 28

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

2. Summary of significant accounting policies (continued)

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

Amendments issued to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

Amendments issued to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the financial statements of the Bank.

Annual Improvements to IAS/IFRSs

Annual Improvements to IFRSs - 2012-2014 Cycle

IASB issued, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan

IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report

IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located

IAS 34 Interim Financial Reporting – clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

These amendments did not have significant impact on the financial position or performance of the Bank.

ii) Standards issued but not yet effective and not early adopted

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

2. Summary of significant accounting policies (continued)

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank resulting from the application of IFRS 9.

2. Summary of significant accounting policies (continued)

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Bank first applies those amendments, it is not required to provide comparative information for preceding periods. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:
a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

2. Summary of significant accounting policies (continued)

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and

b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard-IAS 39.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank does not expect that the standard will have significant impact on the financial position or performance of the Bank.

2. Summary of significant accounting policies (continued)

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The amendments are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

B. Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in Turkish Lira (TL), which is the Bank's functional and the presentation currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

C. Related parties

Parties are considered related to the Bank if below conditions are met;

(a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

2. Summary of significant accounting policies (continued)

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

For the purpose of these financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Bank Audi Group, IFC and EBRD are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business.

D. Due from other banks

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

E. Financial assets at fair value through profit or loss

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio with a pattern of short-term profit taking.

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments such as loans and advances to customers or banks and debt securities in issue were carried at amortized cost.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are included in net trading, hedging and fair value income and loss.

F. Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities, where management has both the intent and the ability to hold them till the maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at fair value which is the cash consideration paid including transaction costs. Available-for-sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available-for sale revaluation are recognized as other comprehensive income in the "available-for-sale revaluation reserve" included in other reserves, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement.

2. Summary of significant accounting policies (continued)

Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Held to maturity investments are initially recorded at fair value which is the cash consideration paid including transactions costs. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any.

Available for sale financial assets include all securities other than loans and receivables, securities held to maturity and securities held for trading.

All purchases and sales of investment securities are recognized at the settlement date, which is the date the asset is delivered to/by the Bank. Any change in fair value of the available-for-sale securities to be received during the period between the trade date and the settlement date is recognized in other comprehensive income.

Unsettled transactions are recorded as off statement of financial position commitments until the settlement date.

G. Repurchase and reverse repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are not derecognized from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within funds obtained under repo agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest expense and amortized over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell ("reverse repos") are recorded as money market placements. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

H. Loans and advances to customers

Loans are non-derivative financial assets which have fixed or determinable payments and are not traded.

The Bank initially records loans and receivables at fair value including the related transaction costs and subsequently measures at amortised cost less any provision for loan losses.

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the statement of income.

The collateral strategy differentiates between collateral types on the basis of customers' ratings and loan terms. In general, the types of collaterals are cash collaterals, mortgages, guarantees, promissory notes, securities issued by the Turkish Treasury Undersecretariat and Central Bank and pledge on assets.

2. Summary of significant accounting policies (continued)

Derecognition of a financial asset

Before evaluating whether, and to what extent, derecognition is appropriate, the Bank determines whether those criteria should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety. Criteria are applied to a part of financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.

(i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).
(ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).
(iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).
A financial asset (or, a part of a financial asset or a part of group of financial assets, where appropriate) is derecognized when, and only when,
- the contractual rights to the cash flows from the financial asset expire; or
- the contractual rights to the cash flows from the financial asset are transferred; or retains the contractual rights to receive the cash flows of the financial asset, but assumes s a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and:
- if the Entity transfers substantially all the risks and rewards of ownership of the financial asset or,
- if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, whether it has retained control of the financial asset.

If the Bank transfers the contractual rights to the cash flows from the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset and it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset. In this case, the entity also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The Bank has evaluated the non-performing loan portfolio of which contractual rights are transferred to the asset management companies, in the context of above statements and derecognizes the loans that are subject to agreements in which all risks and rewards are transferred to the buyer.

I. Impairment of financial assets

At each balance sheet date, the Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Bank determines the related impairment.

The Bank has started to provide specific and collective provisions in 2013. The Bank reviews its loan portfolio to assess impairment at least on monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Impairment and uncollectability are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

2. Summary of significant accounting policies (continued)

J. Derivative financial instruments

The Bank's derivative instruments consist of options, foreign currency and interest swaps and forward foreign currency buy/sell transactions. Derivative instruments are accounted for at their fair values as of the contract date and subsequently valued at fair value. Certain derivative instruments, although economical hedges, are accounted as trading transactions since they are not qualified to be a hedging instrument as per "Financial Instruments: Recognition and Measurement" ("IAS 39"). There are no embedded derivatives separated from the host contract or that are designated as hedging instruments as of the balance sheet date.

Interest income and expenses on swap transactions are presented in interest income or expense.

K. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and accumulated impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Safety box	50 years
ATM	10 years
Furniture and fixtures and motor vehicles	5 years
Office equipment	3-4 years

Gain or loss resulting from disposals of the property and equipment is reflected to the income statement as the difference between the net proceeds and net book value.

Normal maintenance and repair cost of the properties are expensed.

There is no pledge, mortgage or any other lien on property and equipment.

L. Other intangible assets

Other intangible assets are accounted for at cost less accumulated amortization. Other intangible assets are amortized with straight-line method based on their economic lives.

As of the balance sheet date, all software is purchased and there are no completed or continuing software development projects by the Bank internally.

M. Accounting for leases as lessee

Tangible fixed assets acquired by financial leases are accounted for in accordance with IAS 17. In accordance with this standard, the leasing transactions, which consist only foreign currency liabilities, are translated to Turkish Lira with the exchange rates prevailing at the transaction dates and they are recorded as an asset or a liability. The financing cost resulting from leasing is distributed through the lease period to form a fixed interest rate.

In addition to the interest expense, the Bank records depreciation expense for the depreciable leased assets in each period.

Operating lease payments are recognized as expense in the income statement on a straight line basis over the lease term. As of December 31, 2016 the Bank has operational lease agreements for some of its branches and rent expense for them is amounting to TL 64.458.

As of the balance sheet date, the Bank does not have authorization for any financial leasing transactions as lessor.

2. Summary of significant accounting policies (continued)

N. Financial liabilities

Financial liabilities including deposits from banks, customer deposits and other borrowed funds are recognized initially at fair value plus, transaction costs that are directly attributable to the issue of the financial liability. Subsequently, financial liabilities are measured at amortized cost, using the effective interest rate, except for financial liabilities designated at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

O. Income taxes

(i) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Taxes other than on income are recorded within operating expenses (Note 24).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank. Deferred income tax assets resulting from temporary differences, carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 16).

Deferred tax related to fair value remeasurement of available-for-sale investments, which are recognized in other comprehensive income, is also recognized in the other comprehensive income.

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

P. Retirement benefit obligations

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30-day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS 19 “International Accounting Standard on Employee Benefits”.

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

The Bank has no retirement fund or foundation that the employees are the member of.

2. Summary of significant accounting policies (continued)

Defined Contribution Plans

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

Short-term Employee Benefits

In accordance with IAS 19 “International Accounting Standard on Employee Benefits”; the expected cost of accumulating paid absences are measured as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

R. Provisions, contingent assets and contingent liabilities

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by using the Bank’s best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

As of balance sheet date, there is no case filed against to the Bank where the Bank is assessing as probable to lose.

S. Interest income and expense

Interest income and expenses are recognized in the statement of income on an accrual basis using the effective interest rate method.

T. Fee and commission income and expense

All fees and commission income/expenses are recognized as income at the time of realization and during the period where the service is provided. Loan related fees and commissions paid to or received from the other institutions are considered as an integral part of the effective interest rate of a financial instrument and accounted as accrual basis. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

U. Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank’s shareholders. Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

V. Acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as probable commitments in off-balance sheet accounts.

2. Summary of significant accounting policies (continued)

AA. Offsetting

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

AB. Cash and cash equivalents

The cash and cash equivalents comprise balances with original maturities less than 90 days including cash and balances with the central banks excluding reserve requirements and loans and advances to banks (Note 5).

AC. Segment reporting

The Bank provides a full range of banking services and operates in Corporate and Commercial Banking, SME Banking, Retail Banking and Treasury and Capital Markets business segments. These segments have been determined by considering customer types, size and needs and in accordance with the Bank's organizational structure where the profitability, on the basis of account, customer, customer relationship manager, branch segment and product is generated and followed.

Below are the detailed explanations on business segments:

Corporate and Commercial Banking:

Odeabank offers a wide range of corporate and commercial banking products to clients and benefits from the Group’s regional strength and network of corporate banking operations, particularly in the MENA region. During 2016, Corporate and Commercial Banking created multi-faceted financing models that demand a high level of expertise, thereby supporting a wide range of industries and playing a key role in the materialization of numerous significant projects. As at 31 December 2016, Odeabank had a corporate and commercial cash loan portfolio of TL 18.1 billion and a deposit portfolio of TL 8.3 billion which as a result, posted figures above its initial targets and sustained its consistent growth drive.

2. Summary of significant accounting policies (continued)

SME Banking:

In 2016, Odeabank designated SMEs as a priority gross segment. Accordingly, organizational changes were made, and in the second quarter of the year, the SME Banking business unit was established to offer more comprehensive services in line with the "Personalized Banking" perspective to SMEs.After the new structure of SME Banking was established and customer transfers were completed in a short space of time, the business unit grew by 32% in the following six months and increased its cash loans to TL 5.1 billion.

Retail Banking:

Odeabank offers a full range of retail products and services, including conventional checking and savings accounts, fixed-term deposits, loans and housing loans, credit cards and bancassurance products. Odeabank's retail banking activities are offered through three principal divisions: wealth management, debt and credit cards and consumer loans. As at 31 December 2016, Odeabank's retail banking division operated from 50 branches and had more than 530,000 active customers. As at 31 December 2016, Odeabank had a retail deposit portfolio of TL 17.6 billion.

Wealth Management

Odeabank's wealth management division invests customer's savings in fixed income instruments, such as deposits and bonds or Eurobonds, mutual funds, equities and alternative investment vehicles, such as derivative products.

Debit and Credit Cards

Focusing on effective product sales and diversified promotional offers designed to address customer needs, Odeabank boasted more than 370 thousand card holders in 2016. The new products of the year included Odeabank Private Card, designed to meet the financial and daily needs of high income clients, and Bank'O Atlas credit card, which enables frequent travellers to accumulate miles with both flights and shopping.

Consumer Loans

As part of its consumer loan activities, Odeabank offers various consumer loan products, including low-interest, low-fee and no-fee general purpose loans, ready-cash fast loans, overdraft accounts for emergency use, mortgage products and housing loans and car loans. As at 31 December 2016, Odeabank had a retail loan portfolio of TL 2.7 billion.

Treasury and Capital Markets:

Odeabank conducts treasury and capital markets activities through its balance sheet management unit (which is responsible for ensuring that the domestic and foreign currency liquidity levels of Odeabank are maintained in a sustainable and healthy way in compliance with applicable laws and regulations), markets unit (which trades in interbank markets in line with the profit goals and limits determined by Odeabank's Board of Directors), and treasury sales unit (which prices transactions, including spot foreign exchange, forward foreign exchange, arbitrage, forward arbitrage, foreign exchange/interest rate swaps, treasury bills, government bonds, Eurobonds and cross currency swaps, as well as designs and offers structured products).

(Amounts expressed in thousands of TL unless otherwise indicated.)

2. Summary of significant accounting policies (continued)

December 31, 2016

1- Segment information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Net interest income	**640.447**	**197.690**	**10.491**	**130.676**	**979.304**
Non-Interest income	**70.739**	**43.514**	**45.867**	**308.973**	**469.093**
Commissions	74.068	26.521	(1.948)	12.417	**111.058**
FX Operations & Financial operations	(3.329)	16.993	47.815	293.931	**355.410**
Other operating income	-	-	-	2.625	**2.625**
Total operating income	**711.186**	**241.204**	**56.358**	**439.649**	**1.448.397**
Loan Loss Provisions	(246.077)	(64.301)	-	-	**(310.378)**
Net operating income	**465.109**	**176.903**	**56.358**	**439.649**	**1.138.019**

2 - Financial Position Information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Total Assets	23.135.160	2.998.253	6.059.175	5.983.725	**38.176.313**
Total Liabilities	11.391.220	17.520.639	4.233.535	5.030.919	**38.176.313**

December 31, 2015

1-Segment information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Net interest income	**587.795**	**194.670**	**34.922**	**(78.957)**	**738.430**
Non-Interest income	**111.112**	**24.353**	**44.252**	**(56.928)**	**122.789**
Commissions	99.850	6.990	-	(8.606)	**98.234**
FX Operations & Financial operations	11.262	17.363	44.252	(50.824)	**22.053**
Other operating income	-	-	-	2.502	**2.502**
Total operating income	**698.907**	**219.023**	**79.174**	**(135.885)**	**861.219**
Loan Loss Provisions	(131.349)	(122.920)	-	-	**(254.269)**
Net operating income	**567.558**	**96.103**	**79.174**	**(135.885)**	**606.950**

2 - Financial Position Information

	Corporate and Commercial and SME Banking	Retail	Treasury and Capital Markets	Others	TOTAL
Total Assets	19.385.055	2.275.222	5.384.785	4.958.243	**32.003.305**
Total Liabilities	10.353.723	14.617.999	3.144.937	3.886.646	**32.003.305**

2. Summary of significant accounting policies (continued)

AD. Earnings per share

Earnings per shares are disclosed under financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the financial statements are as follows:

Impairment losses on loans and advances

The Bank has started to grant loans to its customers since October 2012. The Bank reviews its loan portfolios to assess impairment on a continuous basis. According to aging analysis of customers, as of December 31, 2016 the Bank has nonperforming loan customers. Accordingly, there is specific provision as well as collective provision provided over the whole loan portfolio based on internal assumptions by considering the historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. (Note 9)

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. (Note 8)

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 16.

Deferred income tax asset recognition

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from the difference between the carrying value and tax base of property, plant and equipment, valuation difference on trading and investment securities, remeasurement of financial assets and liabilities at fair value, provision for loan losses and provision for employment termination benefits. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (Note 16).

Current tax and deferred tax related to items recognized directly in equity are also credited or charged directly to equity.

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

4. Financial risk management

The Bank’s Risk Management Unit was established as an independent unit which reports to the Member of Audit Committee who is responsible for the Audit, Internal Control and Risk Management.

Risk management is committed to control processes in order to determine the limits and measurement of operational risks, including the risks comprising of credit, market, interest rate, concentration, counterparty, banking accounts and IT risks.

Risk Management regularly reports to Senior Management and the Audit Committee all the risks the Bank is exposed to and concentrations, and the Bank’s own internal limits of the legal limits are monitored daily, weekly, monthly and quarterly. These reports consist of, market risk limits, liquidity and interest rate, credit risk analysis and capital adequacy analysis and daily value at risk (VAR) analysis. These reports are also presented to Asset-Liability Management Committee Audit committee on a monthly basis. Financial instruments in the Bank's portfolio are closely monitored and reported on a daily basis against volatility and market values of market risk instruments.

Monthly scenario analysis on economic capital, capital adequacy, liquidity and profitability scenarios and credit risk on Bank’s loan portfolio including benchmark of similar banks are presented to the Audit Committee. Management follows the Bank’s performance and the limits by using these detailed reports.

Risk Management Group calculates Basel II capital adequacy calculation, namely Credit Risk, Market Risk and Operational Risk, in accordance with “Regulation on Measurement and Assessment of Capital Adequacy of Bank’s” published in the Official Gazette dated June 28, 2012 numbered 28337.”

At the Bank, banking processes and policies were established by considering Regulation on the Internal Systems of Banks published in the Official Gazette No. 28337 dated June 28, 2012. Consequently, related procedures/policies are formed and then approved by the Board of Directors at August 2012.

In order to manage operational risks that the Bank is exposed to more effectively and to form an integrated risk management point of view, Operational Risk Policy and IT Continuity Plan was updated.

In order to define, measure, limit and report market risk the Bank is exposed to, Market Risk Policy is formed. When the Bank manages its treasury securities portfolio within the limits determined by the Board of Directors, Risk Management Group checks whether Treasury Department is within these risk limits.

Liquidity Risk is the risk that the Bank cannot fulfill its payment obligations fully and on time due to its insufficient cash inflow or due to inadequate available cash resulting from the mismatch between cash inflows and outflows. In order to define, measure, follow, report the liquidity risk the Bank is exposed to and take necessary actions for the results Liquidity Risk Policy format was prepared with an ongoing and forward-looking basis.

Concentration risk is the risk within credit risk that is exposed according to individual debtor and debtor groups, to debtor groups that indicate similar characteristics in terms of economic and regional sector qualities, on the basis of the assets subject to the collateral securities similar to the risk that is to be considered also within the scope of the market risk and operational risk. In order to define, measure, follow and manage the concentration risk the Bank is exposed to, Concentration Risk Policy is formed. Concentration limits are monitored in compliance with the credit, deposit and related policies.

4. Financial risk management (continued)

Counterparty credit risk refers to the default risk of the counterparty of the transaction before the last payment in the cash flow of this transaction of which brings an obligation to both sides. In order to define, measure, follow and manage the counterparty credit risk the Bank is exposed to Counterparty Credit Risk and Clearing Risk Policy is formed. Counterparty credit risk management is conducted by the Financial Institutions Department of the Bank by taking into account the counterparty's financial reports, general overview, rating, current and expected transaction volumes. The limits for counterparties are determined by the Board of Directors.

"Banking Book" includes all Assets and Liabilities (including credit) except trading securities portfolio. In order to define, measure, follow, report the interest rate risk related to banking book risk the Bank is exposed to and take necessary actions for the results, interest rate risk policy related to banking book is formed. Interest rate risk is managed by senior management in order to avoid losses from adverse interest rate movements.

Within internal capital management scope, the Bank has established a stress test based management by taking into account the estimated maximum loss amount that may occur in credit, operational, market and other risks as well as the changes in the market. Risk Management Procedure is formed in such a way that it includes all the definitions above.

Bank carries out risk mitigation processes and risk hedging for credit risk in accordance with credit risk policies. Risks related to market risk are measured and monitored in accordance with application procedures and policies. In this respect the limits are allocated by the Board of Directors. Limits are monitored, reported, in the event of any limit exceed it is reported to relevant committees and units through documentation by electronic mail. In addition, information about limits on use and loan segment concentration is presented to Audit Committee and the Board of Directors on quarterly.

A. Credit risk

Credit risk is the risk that the Bank is a party in a contract whereby the counterparty fails to meet its obligation and cause to incur a financial loss.

The credit allocation is performed on a debtor and a debtor group basis within the limits and updated on a defined frequency based on market developments. In the credit allocation process, many financial and non-financial criteria are taken into account within the framework of the internal rating procedures of the Bank. These criteria include geographical and sector concentrations. The sector concentrations for loans are monitored closely. In accordance with the Bank's loan policy, the rating of the companies, credit limits and guarantees are considered together, and credit risks incurred are monitored.

Risks and limits related to treasury activities and customer based commercial activities are monitored daily. Moreover, the limits of the correspondent banks that are determined by their ratings and the control of the maximum acceptable risk level in relation to the equity of the Bank are monitored daily. Risk limits are determined in connection with these daily transactions, and risk concentration is monitored systematically concerning off-balance sheet operations.

4. Financial risk management (continued)

Most of the statement of accounts for the loans has been tried to derive from audited financial statements. The unaudited documents result from the timing differences between the loan allocation and the audit dates of the financial statements of the companies and subsequently the audited financial statements are obtained from the companies when the companies are audited. Credit limits are determined according to the audited statement of accounts, and guarantee factors are developed in accordance with the decision of the credit committee considering the characteristics of the transactions and the financial structures of the companies.

For the forward transactions and other similar positions of the Bank, operational limits are set by the Board of Directors and the transactions take place within these limits.

The fulfillment of the benefits and acquirements related to forward transactions is normally realized at maturity. However, in order to minimize the risk, counter positions of existing risks are entered into in the market.

As of December 31, 2016, the proportion of the Bank’s top 100 and 200 cash loan customers’ in total cash loans is 51% and 62% respectively.

As of December 31, 2016, the proportion of the Bank’s top 100 and 200 customers’ non-cash loan balances in total non-cash loans is 84% and 93%.

4. Financial risk management (continued)

<u>Bank's rating system:</u>

Internal credit rating system is used by The Bank. As a basis for the rating classification; financial data of customers has been processed by the MRA - Moody's Risk Analyst software and output rate is considered.

The risks that are subject to rating models can be allocated as follows.

Rating	Risk Grade	Description
(1) Excellent	1	Exceptional business credit, judged to be of the highest quality, with minimal credit risk. Superior asset quality and financial capacity; excellent and proven management; market leader.
(2) Strong	2+	Very good business credit with very good asset quality, consistently strong liquidity and debt capacity; highly regarded in the industry with strong market share.
	2	
	2-	
(3) Good	3+	Good business credit considered upper-medium grade, subject to low credit risk; good asset quality, strong liquidity and debt capacity. Company is above average size and holds a good position in the industry.
	3	
	3-	
(4) Satisfactory	4+	Acceptable business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher than average risk characteristics. Company has demonstrated adequate to good performance.
	4	
	4-	
(5) Adequate	5+	Average to low business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher risk characteristics. Company has demonstrated adequate performance.
	5	
	5-	
(6) Marginal	6+	Below average business credit subject to high credit risk. Company is likely a lower tier competitor in its industry. Acceptable but requiring close monitoring and support of strong risk mitigants.
	6	
	6-	
(7) Vulnerable	7+	Weak business credit: Judged to be of poor standing and subject to very high credit risk. Constitutes undue and unwarranted credit risk. Currently in performing status not to the point of justifying a Substandard classification.
	7	
	7-	
(8) Substandard	8	Substandard (Default): Unacceptable business credit with normal repayment in jeopardy.
(9) Doubtful	9	Doubtful (Default): Full repayment questionable. Serious problems to the point where partial loss of principal is likely.
(10) Loss	10	Loss (Default): Expected loss. Such an asset may have recovery but not to the point of avoiding loss classification.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Maximum exposure to credit risk

	2016	2015
Credit risk exposures relating to assets on-statement of financial position:		
Cash and balances with central banks	4.718.240	4.074.584
Due from banks	327.756	103.739
Money market placements	4.412.052	4.061.196
Loans and advances to customers	26.318.533	21.707.618
- Retail	2.800.328	2.311.745
- Corporate and Commercial	18.185.067	10.160.205
- SME	5.333.138	9.235.668
Financial assets at fair value through profit or loss	425.933	125.725
- Financial assets held for trading	5.905	24.812
- Derivative financial instruments	420.028	100.913
Investment securities	1.333.610	1.461.627
- Available-for-sale	905.455	1.097.178
- Held-to-maturity	428.155	364.449
Other assets	157.536	98.838
Credit risk exposures relating to off-balance sheet items:		
Bank acceptance loans	114.523	68.037
Letters of credit	571.553	480.011
Letter of guarantee	2.214.062	1.748.730
Other commitments	2.190.024	901.450

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

The main types of collaterals obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, mortgages over real estate properties, cash, guarantee letters, securities, pledges or guarantees
- For retail lending, mortgages over residential properties or pledges on vehicles

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement when necessary.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Collateral Distribution (*)

31 December 2016	Corporate and Commercial	SME	Retail	Total
Deposit	1.567.299	298.551	70.201	1.936.051
Mortgage	6.797.615	3.117.756	676.769	10.592.140
Assignment of claim	3.424.894	187.787	-	3.612.681
Cheque	261.343	533.905	-	795.248
Pledge of vehicle	332.914	80.436	75.188	488.538
Total	**12.384.065**	**4.218.435**	**822.158**	**17.424.658**

31 December 2015	Corporate and Commercial	SME	Retail	Total
Deposit	1.423.126	119.905	40.187	1.583.218
Mortgage	6.297.728	1.424.046	623.781	8.345.555
Assignment of claim	2.718.533	102.846	-	2.821.379
Cheque	589.536	350.778	-	940.314
Pledge of vehicle	86.727	27.788	43.658	158.173
Total	**11.115.650**	**2.025.363**	**707.626**	**13.848.639**

(*) Represents the amounts of the exposures covered by these collaterals.

The details of the loans and advances past due but not impaired which are classified under the performing loans are as follows;

Information on past due but not impaired loan and other receivables:

31 December 2016	Corporate and Commercial	SME	Retail	Total
Not past due and 30 days past due	17.679.696	5.015.066	2.613.049	25.307.811
30-60 days past due	224.868	88.026	129.754	442.648
60-90 days past due (Note 9) (*)	262.000	16.715	24.670	303.385
Delayed over +90 days (**)	-	2.159	4.658	6.817
Total	**18.166.564**	**5.121.966**	**2.772.131**	**26.060.661**

(*)As of reporting period, the Bank has fully cash covered exposure, by the parent bank, amounting to USD 74.4 million given to main partner of an institution carrying out its activities in telecommunication sector and having strategic importance which is followed under Performing Loans having 60-90 days past due. Discussions among shareholders of the entity, creditor banks and related public institutions regarding restructuring of current main partner including change of shareholder have been commenced and it is expected that aforementioned discussions shall result in a positive development.
(**)Part of overdue receivables (more than 90 days) which are not evaluated as receivables for which provisions are made and reasons of this application: The Bank classifies loans that are more than 90 days of overdue as non-performing and books specific provisions on month-ends. Exceptional cases that are due to bankruptcy protection cases may delay this process for corporate, commercial and sme loans. As of December 31, 2016 these loans were insignificant.

31 December 2015	Corporate and Commercial	SME	Retail	Total
Not past due and 30 days past due	15.560.450	3.561.931	2.082.682	21.205.063
30-60 days past due	38.991	113.528	82.075	234.594
60-90 days past due	5.371	20.846	36.439	62.656
Delayed over +90 days	-	5.064	-	5.064
Total	**15.604.812**	**3.701.369**	**2.201.196**	**21.507.377**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Sectoral Risk Breakdown of Financial Instruments

The Bank uses BRSA definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

December 31, 2016

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Individuals	Total
Cash and balances with central bank	4.718.240	-	-	-	-	-	-	-	4.718.240
Due from banks	-	-	-	327.756	-	-	-	-	327.756
Trading securities – debt securities	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	2.495	16.301	301.746	31.193	5.250	29.146	33.897	420.028
Financial assets at fair value through profit and loss	5.905	-	-	-	-	-	-	-	5.905
Investment securities – available for sale securities	905.455	-	-	-	-	-	-	-	905.455
Investment securities – held-to-maturity securities	428.155	-	-	-	-	-	-	-	428.155
As of December 31, 2016	**6.057.755**	**2.495**	**16.301**	**629.502**	**31.193**	**5.250**	**29.146**	**33.897**	**6.805.539**

December 31, 2015

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Individuals	Total
Cash and balances with central bank	4.074.584	-	-	-	-	-	-	-	4.074.584
Due from banks	-	-	-	4.164.935	-	-	-	-	4.164.935
Trading securities – debt securities	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	18	6.379	48.466	18.673	6.776	-	20.601	100.913
Financial assets at fair value through profit and loss	-	-	-	24.812	-	-	-	-	24.812
Investment securities – available for sale securities	1.097.178	-	-	-	-	-	-	-	1.097.178
Investment securities – held-to-maturity securities	364.449	-	-	-	-	-	-	-	364.449
As of December 31, 2015	**5.536.211**	**18**	**6.379**	**4.238.213**	**18.673**	**6.776**	**-**	**20.601**	**9.826.871**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Sectoral risk breakdown of cash and non-cash loans of the Bank are as follows;

December 31, 2016

	Cash Loans	Non-Cash Loans
Real Estate	4.303.128	478.056
Electric & Gas & Water Resources	2.610.088	389.865
Shopping Mall / Commercial Units	2.309.352	-
Wholesale & Retail	2.474.273	-
Others in Manufacturing Industry	2.268.297	480.565
Real Estate Dealing	1.690.889	164
Tourism	1.524.356	24.341
EPC (*)	1.365.351	632.455
Textile	1.154.771	-
Other Personal Services	996.109	6.997
Transportation, Storage & Communication	998.972	603.365
Metal Industry	944.745	-
Food And Beverage Industry	839.119	-
Other	659.421	-
Farming, Forest And Hunting	544.254	81.913
Social Service And Health Services	535.563	56.687
Mining Industry	397.025	31.012
Machinery And Equipment	256.720	-
Education	234.200	62.138
Finance	199.462	52.580
Fishing	11.692	-
Public Administration and National Deffence	746	-
Total	**26.318.533**	**2.900.138**

(*) Engineering, Procurement and Construction

December 31, 2015

	Cash Loans	Non-Cash Loans
Real Estate	3.265.271	703
Wholesale & Retail	2.451.236	342.052
Others in Manufacturing Industry	2.153.263	382.891
EPC (*)	1.706.296	700.828
Electric & Gas & Water Resources	1.625.232	405.169
Tourism	1.368.697	4.874
Transportation, Storage & Communication	1.296.323	218.769
Shopping Mall / Commercial Units	1.225.323	-
Real Estate Dealing	1.147.318	-
Textile	907.505	-
Metal Industry	845.314	-
Mining Industry	691.118	25.732
Food And Beverage Industry	648.955	-
Social Service And Health Services	509.428	46.673
Other Personal Services	497.042	16.477
Other	361.942	-
Farming, Forest And Hunting	345.972	67.534
Finance	278.595	25.845
Education	181.966	59.231
Machinery And Equipment	176.038	-
Fishing	24.784	-
Total	**21.707.618**	**2.296.778**

(*) Engineering, Procurement and Construction

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Rating of debt securities:

	December 31, 2016		
Moody's credit rating model	**Trading securities**	**Available for Sale**	**Held-to Maturity**
Financial assets:			
A1	-	1.927	-
BA1	5.905	417.428	428.155
B2	-	486.100	-
Total	**5.905**	**905.455**	**428.155**

	December 31, 2015		
Moody's credit rating model	**Trading securities**	**Available for Sale**	**Held-to Maturity**
Financial assets:			
A1	-	5.285	-
Baa3	24.812	619.040	364.449
B2	-	472.853	-
Total	**24.812**	**1.097.178**	**364.449**

B. Market risk

The Bank has defined market risk management operations and taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" which was published in the Official Gazette on June 28, 2012 numbered 28337 and "Regulation Regarding Banks' Shareholders' Equity".

The Board of Directors determines the limits for the basic risk that the Bank is exposed to. Those limits are revised periodically in line with the market forces and strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management division and senior management has taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Interest rate and exchange rate risks, arising from the volatility in the financial markets are measured, and in the computation of capital adequacy, the amount subject to risk calculated by using the standard is taken into consideration.

The major measurement techniques used to measure and control market risk are outlined below.

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the market risk policy of the Bank, include: FX and interest rate stress testing, where stress movements are applied to the FX position and to the banking book. The results of the stress tests are reviewed by ALCO.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

i) Foreign exchange risk

Foreign currency risk indicates the probability of loss that the Banks is subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standard method.

The Board of Directors sets limits for the positions and stop losses which are followed up daily and weekly. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

The table below summarizes the Bank's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

December 31, 2016

				Foreign currency
	EUR	**USD**	**Other**	**Total**
Assets				
Cash and balances with central banks	1.215.947	2.134.477	3.430	3.353.854
Due from banks	51.177	239.271	27.643	318.091
Money market placements	-	-	-	-
Financial assets held for trading(*)	-	-	-	-
- Trading securities	-	-	-	-
- Derivative financial instruments	-	-	-	-
Loans and advances to customers	6.266.196	8.532.006	-	14.798.202
Investment securities	-	-	-	-
- Available-for-sale	87	479.803	-	479.890
- Held-to-maturity	-	428.155	-	428.155
Other assets	8.962	19.648	-	28.610
Total assets	**7.542.369**	**11.833.360**	**31.073**	**19.406.802**
Liabilities				
Deposits	8.608.926	9.791.425	79.738	18.480.089
Debt securities issued, subordinated loans and due to banks	1.260.491	2.872.862	51.945	4.185.298
Miscellaneous Payables	150	561	11	722
Other liabilities	3.054	32.757	130	35.941
Total liabilities	**9.872.621**	**12.697.605**	**131.824**	**22.702.050**
Capital Contribution	-	-	-	-
Net balance sheet position	**(2.330.252)**	**(864.245)**	**(100.751)**	**(3.295.248)**
Off-balance sheet derivative instruments net notional position	**2.972.466**	**429.130**	**103.427**	**3.505.023**
Net foreign currency position	**642.214**	**(435.115)**	**2.676**	**209.775**

(*)Market to market on Derivative financial assets / liabilities have not been included in the net balance sheet position.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2015

				Foreign currency
	EUR	USD	Other	Total
Assets				
Cash and balances with central banks	29.782	3.511.658	3.559	3.544.999
Due from banks	23.460	73.666	1.696	98.822
Money market placements	-	-	-	-
Financial assets held for trading(*)				
- Trading securities	-	-	-	-
- Derivative financial instruments	-	-	-	-
Loans and advances to customers	4.857.612	7.598.420	-	12.456.032
Investment securities				
- Available-for-sale	5.285	620.032	-	625.317
- Held-to-maturity	-	364.449	-	364.449
Other intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Deferred income tax assets	-	-	-	-
Assets held for resale	-	-	-	-
Other assets	1.021	2.080	-	3.101
Total assets	**4.917.160**	**12.170.305**	**5.255**	**17.092.720**
Liabilities				
Deposits	6.097.427	9.633.373	34.125	15.764.925
Debt securities issued, subordinated loans and due to banks	704.869	2.816.508	43.751	3.565.128
Miscellaneous Payables	38	151	2	191
Derivative financial instruments	-	-	-	-
Other liabilities	7.542	7.205	290	15.037
Total liabilities	**6.809.876**	**12.457.237**	**78.168**	**19.345.281**
Capital Contribution	-	873.420	-	873.420
Net balance sheet position	**(1.892.716)**	**(1.160.352)**	**(72.913)**	**(3.125.981)**
Off-balance sheet derivative instruments net notional position	2.253.564	914.718	73.216	3.241.498
Net foreign currency position	**360.848**	**(245.634)**	**303**	**115.517**

At December 31, 2016, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 3,5215 = USD 1, and TL 3,7124= EUR 1

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

Currency risk sensitivity:

The table below represents the sensitivity of the Bank to 10% change of currency exchange rates (USD and EUR). 10% change is the assumption of parity change that may be faced in a possible fluctuation used in the Bank's stress test scenarios.

	December 31, 2016		December 31, 2015	
Change in currency exchange rate	**Profit/loss effect (1)**		**Profit/loss effect (1)**	
	EUR	**USD**	**EUR**	**USD**
(+) 10%	64.221	(43.512)	36.085	(24.564)
(-) 10%	(64.221)	43.512	(36.085)	24.564

(1) Excluding tax effect.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

ii) Interest rate risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk for capital adequacy.

Risk Management Group performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank monitors maturity mismatches very closely a significant interest rate risk exposure is not expected.

The table below summarizes the Bank's exposure to interest rate risk at December 31, 2016. Included in the table are the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

December 31, 2016	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	3.361.608	-	-	-	1.356.632	4.718.240
Due from banks	-	-	-	-	327.756	327.756
Money market placements	4.412.052	-	-	-	-	4.412.052
Financial assets at fair value through profit or loss	190.620	196.399	30.098	8.816	-	425.933
Loans and advances to customers	12.414.621	6.314.618	5.597.833	1.733.589	257.872	26.318.533
Investment securities						
- Available-for-sale	254.265	-	-	649.263	1.927	905.455
- Held-to-maturity	-	-	428.155	-	-	428.155
Other intangible assets	-	-	-	-	98.807	98.807
Property and equipment	-	-	-	-	129.466	129.466
Deferred income tax assets	-	-	-	-	120.267	120.267
Assets held for sale	-	-	-	-	42.094	42.094
Other assets	-	-	-	-	249.555	249.555
Total assets	**20.633.166**	**6.511.017**	**6.056.086**	**2.391.668**	**2.584.376**	**38.176.313**
Liabilities						
Deposits	27.027.650	760.068	10.074	-	1.456.604	29.254.396
Funds obtained under repurchase agreements	2.457	-	-	-	-	2.457
Debt securities issued, subordinated loans and due to banks and money market balances	1.004.396	1.868.947	462.743	857.828	-	4.193.914
Derivative financial instruments	254.531	186.139	102.319	2.886	-	545.875
Current income taxes payable	-	-	-	-	-	-
Other liabilities, other provisions and equity	-	-	-	-	4.179.671	4.179.671
Total liabilities and equity	**28.289.034**	**2.815.154**	**575.136**	**860.714**	**5.636.275**	**38.176.313**
Net interest repricing gap	**(7.655.868)**	**3.695.863**	**5.480.950**	**1.530.954**	**(3.051.899)**	**-**
Off-balance sheet derivative instruments long position	19.684.054	5.582.278	2.841.612	387.022	-	28.494.966
Off-balance sheet derivative Instruments short position	(20.051.709)	(5.149.680)	(3.332.583)	(201.164)	-	(28.735.136)

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2015	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	3.937.140	-	-	-	137.444	4.074.584
Due from banks	-	-	-	-	103.739	103.739
Money market placements	4.061.196	-	-	-	-	4.061.196
Financial assets at fair value through profit or loss	37.792	41.271	21.325	25.337	-	125.725
Loans and advances to customers	8.769.918	6.500.236	4.674.337	1.562.886	200.241	21.707.618
Investment securities						
- Available-for-sale	463.283	628.610	-	-	5.285	1.097.178
- Held-to-maturity	-	-	364.449	-	-	364.449
Other intangible assets	-	-	-	-	99.028	99.028
Property and equipment	-	-	-	-	142.902	142.902
Deferred income tax assets	-	-	-	-	60.625	60.625
Assets held for sale	-	-	-	-	29.879	29.879
Other assets	-	-	-	-	136.382	136.382
Total assets	**17.269.329**	**7.170.117**	**5.060.111**	**1.588.223**	**915.525**	**32.003.305**
Liabilities						
Deposits	23.338.995	611.715	4.325	-	1.378.461	25.333.496
Funds obtained under repurchase agreements	156.858	-	-	-	-	156.858
Debt securities issued, subordinated loans and due to banks	1.807.879	862.064	284.872	770.438	-	3.725.253
Derivative financial instruments	63.280	61.650	16.265	1.524	-	142.719
Current income taxes payable	-	-	-	-	-	-
Other liabilities, other provisions and equity	-	-	-	-	2.644.979	2.644.979
Total liabilities and equity	**25.367.012**	**1.535.429**	**305.462**	**771.962**	**4.023.440**	**32.003.305**
Net interest repricing gap	**(8.097.683)**	**5.634.688**	**4.754.649**	**816.261**	**(3.107.915)**	**-**
Off-balance sheet derivative instruments long position	8.949.936	3.434.632	2.187.155	818.828	-	15.390.551
Off-balance sheet derivative Instruments short position	(9.020.181)	(3.488.817)	(2.183.467)	(818.828)	-	(15.511.293)

The interest rate risk for all on-balance sheet and off-balance sheet items, which are interest sensitive, and for banking accounts has been calculated. In calculation of interest rate risk, the bank has no any assumptions for early repayment of loans and demand deposits. Interest rate risk arising from banking accounts is calculated and is reported to BRSA monthly.

Economic value differences resulted from interest rate instabilities calculated according to Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method.

Below table summarizes the economic value differences resulting from interest rate volatility calculated according to the Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method of BRSA. As of December 31, 2016, 500 bp/400 bp shock and 200bp shock are applied for Turkish Lira and foreign currency respectively for the assessment of the changes in the fair value of balance sheet items which are subject to calculation.

December 31, 2016:

Unit of Currency	Applicable Shock (+ / - base point)	Profit/ Loss	Profit / Regulatory Equity Capital – Loss / Regulatory Equity Capital
TL	500	(477.969)	(11,73)%
	(400)	456.281	11,20%
EUR	200	(37.759)	(0,93)%
	(200)	(4.412)	(0,11)%
USD	200	(55.140)	(1,35)%
	(200)	55.540	1,36%
Total (For Positive Shock)		(570.868)	(14,02)%
Total (For Negative Shock)		507.408	12,46%

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2015:

Unit of Currency	Applicable Shock (+ / - base point)	Profit/ Loss	Profit / Regulatory Equity Capital – Loss / Regulatory Equity Capital
TL	500	(369.108)	(13,73)%
	(400)	356.882	13,28%
EUR	200	(21.722)	(0,81)%
	(200)	(459)	(0,02)%
USD	200	(47.030)	(1,75)%
	(200)	(27.570)	(1,03)%
Total (For Positive Shock)		(437.860)	(16,29)%
Total (For Negative Shock)		328.853	12,24%

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

	December 31, 2016		
	EUR (%)	**USD (%)**	**TL (%)**
Assets			
Cash and balances with central banks	-	0,51	2,96
Due from banks	-	-	-
Financial Assets at Fair Value Through Profit and Loss	-	-	10,07
Money Market Placements	-	-	8,50
Investment securities			
- Available-for-sale	-	6,59	9,43
- Held-to-maturity	-	3,47	-
Loans and advances to customers	5,53	6,80	15,58
Liabilities			
Bank deposits	1,55	2,75	7,93
Customer deposits	2,28	3,34	10,83
Money Market Borrowings	-	-	7,65
Debt securities issued and due to banks	2,03	2,84	6,73
Subordinated Loans	-	6,50	-

C. Liquidity risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely.

Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank’s policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios, and monitors them.

According to the general policies of the Bank, the maturity and interest rate structure of assets, and liabilities is always monitored. A positive difference is tried to be established between the yields of assets and liabilities on the balance sheet and their costs. In this sense, various crisis scenarios which are prepared by Risk Management Group are presented to Senior Management and Audit Committee.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by diversified and steady base deposits and in addition to this source, it makes use of pre-financing and other institutional funding and borrowings syndication products to generate additional sources.

The following table presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, which include interest to be paid at maturity, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

December 31, 2016

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits and money market borrowings	1.456.604	26.893.177	987.356	282.191	-	29.619.328
Debt securities issued, subordinated loans and due to banks	-	777.384	1.441.162	527.066	1.463.134	4.208.746
Total liabilities	**1.456.604**	**27.670.561**	**2.428.518**	**809.257**	**1.463.134**	**33.828.074**

December 31, 2015

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits	1.378.461	23.618.627	618.778	4.457	-	25.620.323
Debt securities issued, subordinated loans and due to banks	-	2.019.376	916.013	339.993	1.065.814	4.341.196
Total liabilities	**1.378.461**	**25.638.003**	**1.534.791**	**344.450**	**1.065.814**	**29.961.519**

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of December 31, 2016						
Gross settled						
Foreign exchange forward contracts	1.945.445	1.214.648	1.137.540	32.784	-	4.330.417
Currency swaps	12.380.499	9.365.466	2.903.609	2.442.561	124.248	27.216.383
Interest rate swap agreement	91.965	1.590	1.633.614	8.653.776	1.052.335	11.433.280
Foreign currency sell and buy options	5.211.579	3.500.599	5.055.589	2.345	-	13.770.112
Interest rate sell and buy options	-	-	-	479.910	-	479.910
Total	**19.629.488**	**14.082.303**	**10.730.352**	**11.611.376**	**1.176.583**	**57.230.102**

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of December 31, 2015						
Gross settled- both legs buy and sell						
Foreign exchange forward contracts	1.634.972	1.076.593	927.425	672	-	3.639.662
Currency swaps	5.514.190	3.501.742	3.056.019	898.203	-	12.970.154
Interest rate swap agreement	245.848	-	595.430	3.377.840	1.181.150	5.400.268
Foreign currency sell and buy options	3.623.239	2.155.862	2.344.575	93.906	-	8.217.582
Interest rate options	-	-	-	-	456.508	456.508
Total	**11.018.249**	**6.734.197**	**6.923.449**	**4.370.621**	**1.637.658**	**30.684.174**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to negatively impact the earnings from violations or noncompliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Bank's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Bank's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, the Bank calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 28337 dated June 28, 2012.

The value at operational risk is calculated according to the basic indicator approach of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette No. 28337 dated June 28, 2012.

	2 PY Amount	1 PY Amount	CY Amount	Total / Total number of years for which gross income is positive	Rate (%)	Total
Gross income	188.661	589.767	865.225	547.884	15	82.183
The amount subject to operational risk (Total*12,5)(*)						1.027.288

E. Capital management

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

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 12%.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

The Bank's regulatory capital adequacy position at December 31, 2016 was as follows:

	December 31, 2016	December 31, 2015
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	2.007.605	1.682.332
Capital requirement for market risk (II) (Value at Market Risk*0.08) (MRCR)	42.416	38.990
Capital requirement for operational risk (III) (ORCR)	82.183	42.013
Shareholders' Equity[(1)]	4.073.229	2.687.249
Shareholders' Equity/((CRCR+MRCR+ORCR) * 12.5) * 100	**14,96**	**12,19**

(1) Pursuant to the approval of BRSA dated December 8, 2015, The Bank, on March 1, 2016, converted into TL the capital contribution which were obtained from its controlling shareholder Bank Audi sal amounting to total USD 300 million, and completed the necessary legal and administrative procedures with the relevant authorities and added its converted amount to TL 883.530 to the paid in capital on March 31, 2016. On August 10, 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L., TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.a.r.l, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

F. Fair value of financial instruments

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

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheets at their fair values at December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:	**32.391.951**	**33.612.843**	**27.334.180**	**27.646.472**
Due from banks and money market placements	4.739.808	4.739.808	4.164.935	4.164.935
Loans and advances to customers	26.318.533	27.544.581	21.707.618	22.024.099
Available-For-Sale Financial Assets	905.455	905.455	1.097.178	1.097.178
Held-To-Maturity Investments	428.155	422.999	364.449	360.260
Financial liabilities:	**33.450.767**	**33.245.458**	**29.215.607**	**29.004.843**
Deposits	29.254.396	29.255.936	25.333.496	25.335.828
Debt securities issued, repurchase agreements, subordinated loans and due to banks	4.196.371	3.989.522	3.882.111	3.669.015

4. Financial risk management (continued)

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

i. Financial assets:

Money market placements and banks are carried at amortised cost values on the face of the financial statements and due to their short term nature, their fair values are considered to approximate their respective carrying values.

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value. The credit risk is not considered when calculating the fair value of loans and advances to customers as in line with the pricing of such loans.

ii. Financial liabilities:

The discount rate used to calculate the fair value of deposits and funds borrowed as of December 31, 2016 is the current market rates available for the borrowing and deposits types with similar currency and maturity.

Investment securities

Fair value for held-to-maturity securities is based on market prices or prices prevailing at the statement of financial position date announced by the BIST.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments - available-for-sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Determination of fair value and fair value hierarchy:

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3- Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Assets and liabilities measured at fair value

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Debt securities	5.905	-	-	5.905
- Equity securities	-	-	-	-
- Derivatives	-	420.028	-	420.028
Available-for-sale financial assets				
- Investments securities – debt	901.688	-	-	901.688
- Investments securities – equity	-	-	1.840	1.840
Total assets	**907.593**	**420.028**	**1.840**	**1.329.461**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	545.875	-	545.875
Total liabilities	**-**	**545.875**	**-**	**545.875**

December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Debt securities	24.812	-	-	24.812
- Equity securities	-	-	-	-
- Derivatives	-	100.913	-	100.913
Available-for-sale financial assets				
- Investments securities – debt	1.091.893	-	-	1.091.893
- Investments securities – equity	-	-	5.285	5.285
Total assets	**1.116.705**	**100.913**	**5.285**	**1.222.903**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	142.719	-	142.719
Total liabilities	**-**	**142.719**	**-**	**142.719**

There are no transfers between the first and the second levels in the current year.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Cash and balances with central banks

Cash and Balances with the Central Bank of Turkey:

	December 31, 2016	December 31, 2015
TL	1.364.386	529.585
Foreign currency	3.353.854	3.544.999
Total	**4.718.240**	**4.074.584**

Cash and cash equivalents for the purpose of presentation in the statement of cash flows

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

	December 31, 2016	December 31, 2015
Cash and cash equivalents	168.547	137.330
Current account balances with the Central Bank	1.281.193	456.383
Loans and advances to banks, excluding accrued interest (with original maturity less than 90 days) (included in due from banks),	327.756	103.739
Reverse repos, excluding accrued interest (included in money market placements)	4.410.000	4.060.000
Total	**6.187.496**	**4.757.452**

The reserve requirements are promulgated by communiqués issued by the Central Bank of Turkey ("the Central Bank").

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. CBRT started paying interest on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014.

The reserve rates for TL liabilities vary between 4% and 10,5% for TL deposits and other liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 11,5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4,5% and 24,5% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2016 (31 December 2015: 5% and 25% for all foreign currency liabilities).

(Amounts expressed in thousands of TL unless otherwise indicated.)

6. Due from banks

			December 31, 2016
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	139	-	139
Time deposits	-	-	-
Interbank money market and reverse repo	4.412.052	-	4.412.052
Total	**4.412.191**	**-**	**4.412.191**
Foreign currency:			
Nostro/ demand deposits (*)	-	327.617	327.617
Time deposits	-	-	-
Total	**-**	**327.617**	**327.617**

(*) As of December 31, 2016, nostro/ demand deposits include collaterals amounting to TL 209.032 given to the foreign banks for the derivative transactions. (December 31, 2015: TL 67.753)

			December 31, 2015
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	114	-	114
Time deposits	-	-	-
Interbank money market and reverse repo	4.061.196	-	4.061.196
Total	**4.061.310**	**-**	**4.061.310**
Foreign currency:			
Nostro/ demand deposits (*)	-	103.625	103.625
Time deposits	-	-	-
Total	**-**	**103.625**	**103.625**

(*) As of December 31, 2015, nostro/ demand deposits include collaterals amounting to TL 67.753 given to the foreign banks for the derivative transactions.

7. Financial assets at fair value though profit or loss

	December 31, 2016	**December 31, 2015**
Derivative financial instruments	420.028	100.913
Financial assets held for trading	5.905	24.812
Total financial assets held for trading	**425.933**	**125.725**

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Derivative financial instruments

The Bank utilizes the following derivative instruments with the general purpose of minimising market risk carried by balance sheet instruments and/or meeting customer demand:

“Currency forwards” represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Bank has credit exposure to the counterparties of forward contracts.

“Currency and interest rate swaps” are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Bank’s credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market.

“Options” are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Bank’s option book activity stems from the clients’ needs; therefore, to meet the client demands Bank actively runs an option book on the residual open positions which are not fully covered.

December 31, 2016

	Contract/ notional amount (aggregate of buy and sell)	Fair values Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	4.330.417	26.219	47.488
Currency swaps	27.216.383	280.339	394.351
Currency options	13.770.112	74.413	80.252
Total foreign exchange derivatives	**45.316.912**	**380.971**	**522.091**
Interest rate derivatives:			
Interest rate swaps	11.433.280	39.057	23.784
Options	479.910	-	-
Total interest rate derivatives	**11.913.190**	**39.057**	**23.784**
Other derivatives	-	-	-
Total derivative assets/ (liabilities) held for trading	**57.230.102**	**420.028**	**545.875**

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Derivative financial instruments (continued)

December 31, 2015

	Contract/ notional amount (aggregate of buy and sell)	Fair values Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	3.639.662	24.056	13.328
Currency swaps	12.970.154	34.906	86.600
Currency options	8.217.582	23.700	37.894
Total foreign exchange derivatives	**24.827.398**	**82.662**	**137.822**
Interest rate derivatives:			
Interest rate swaps	5.400.268	18.251	4.897
Options	456.508	-	-
Total interest rate derivatives	**5.856.776**	**18.251**	**4.897**
Other derivatives	-	**-**	**-**
Total derivative assets/ (liabilities) held for trading	**30.684.174**	**100.913**	**142.719**

9. Loans and advances to customers

December 31, 2016

	Corporate and Commercial	SME	Retail	Total
Performing loans(*)	17.716.762	4.593.660	2.510.727	24.821.149
Watch listed and restructured loans	449.802	528.306	261.404	1.239.512
Impaired loans	99.719	438.400	150.324	688.443
Gross	**18.266.283**	**5.560.366**	**2.922.455**	**26.749.104**
Loan Loss Provision	81.216	227.228	122.127	430.571
Specific allowance for impairment	32.193	179.562	89.563	301.318
Collective allowance for impairment	49.023	47.666	32.564	129.253
Net	**18.185.067**	**5.333.138**	**2.800.328**	**26.318.533**

(*)As of reporting period, the Bank has fully cash covered exposure, by the parent bank, amounting to USD 74.4 million given to main partner of an institution carrying out its activities in telecommunication sector and having strategic importance which is followed under Performing Loans having 60-90 days past due.Discussions among shareholders of the entity, creditor banks and related public institutions regarding restructuring of current main partner including change of shareholder have been commenced and it is expected that aforementioned discussions shall result in a positive development.

(Amounts expressed in thousands of TL unless otherwise indicated.)

9. Loans and advances to customers (continued)

December 31, 2015

	Corporate and Commercial	SME	Retail	Total
Performing loans	15.243.684	3.434.649	2.045.889	20.724.222
Watch listed and restructured loans	361.128	266.720	155.308	783.156
Impaired loans	131.670	223.046	133.211	487.927
Gross	**15.736.482**	**3.924.415**	**2.334.408**	**21.995.305**
Loan Loss Provision	38.859	119.840	128.988	287.687
Specific allowance for impairment	12.739	115.246	60.449	188.434
Collective allowance for impairment	26.120	4.594	68.539	99.253
Net	**15.697.623**	**3.804.575**	**2.205.420**	**21.707.618**

Loans and advances to the public sector and private sector are as follows:

	December 31, 2016	December 31, 2015
Public sector	-	-
Private sector	26.318.533	21.707.618
Total	**26.318.533**	**21.707.618**

Movements in the provision for loan losses are as follows:

	December 31, 2016	December 31, 2015
1 January,	**287.687**	**167.371**
Additions	359.809	270.589
Collections	(37.531)	(16.320)
Write-offs and sales(*)	(179.394)	(133.953)
Total	**430.571**	**287.687**

(*) As of December 31, 2016 with the decision of Board of Directors and in accordance with laws of "Regulations of Provisions", fully provisioned uncollateralized retail loans amounting to TL 43.393 have been derecognized from balance sheet through write off procedures (December 31, 2015: TL 45.618).

The Bank completed the sale of individually impaired loans which were previously written off customers amounting to TL 32.402 and fully provisioned non performing retail loans amounting to TL 48.528 and sold to an Asset Management Company on December 22, 2016 for TL 11.800. In addition to that; fully provisioned NPL customers in the SME segment amounting to TL 96.489 have been sold to another Asset Management Company on December 28, 2016 for TL 100 with a revenue sharing basis.

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Investment securities

Securities available-for-sale

	December 31, 2016	December 31, 2015
Debt securities - at fair value:		
Turkish Government bonds and treasury bills	425.565	471.861
Lebanese Government Eurobonds and treasury bills	477.963	620.032
Share Certificates	1.927	5.285
Equity securities - at fair value	-	-
Listed	-	-
Unlisted	-	-
Total securities available-for-sale	**905.455**	**1.097.178**

As of December 31, 2016 available-for-sale pledged as collateral and also subject to repurchase agreement amount to TL 193.752 (December 31, 2015: TL 285.673).

The movement in available-for-sale securities at during the years is as follows:

	December 31, 2016	December 31, 2015
At January 1	**1.097.178**	**863.054**
Additions	1.334.679	5.285
Disposals / redemption	(1.242.048)	-
Interest accruals and changes in fair value	1.185	3.900
Foreign currency differences and realized gain or loss	(285.539)	224.939
At December 31	**905.455**	**1.097.178**

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Investment securities (continued)

Securities held-to-maturity

	December 31, 2016	December 31, 2015
Debt securities - at amortized cost - listed:		
Turkish Government Eurobonds and treasury bills	428.155	364.449
Government bonds and treasury bills sold under repurchase agreements	-	-
Eurobonds sold under repurchase agreement	-	-
Foreign government bonds	-	-
Total securities held-to-maturity	**428.155**	**364.449**

As of December 31, 2016 held to maturity pledged as collateral and also subject to repurchase agreement amounting TL 86.347. (December 31, 2015: None).

The movement in held-to-maturity securities during the years is as follows:

	December 31, 2016	December 31, 2015
At January 1	**364.449**	**300.091**
Additions	-	-
Redemptions	-	-
Transfers	-	-
Foreign currency differences	63.706	64.358
At December 31	**428.155**	**364.449**

11. Property and equipment

	December 31, 2016	December 31, 2015
Cost	245.533	217.407
Accumulated depreciation and impairment(-)	116.067	74.505
Net book amount	**129.466**	**142.902**

(Amounts expressed in thousands of TL unless otherwise indicated.)

11. Property and equipment (continued)

December 31, 2016	Land and buildings	Office equipment	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	9.174	79.530	25.054	103.650	217.408
Additions	-	12.494	1.937	15.963	30.394
Transfers	-	8.326	(8.326)	-	-
Disposals	-	-	(76)	(2.193)	(2.269)
At December 31	**9.174**	**100.350**	**18.589**	**117.420**	**245.533**
Accumulated depreciation and impairment					
At January 1	(581)	(29.214)	(9.894)	(34.817)	(74.506)
Depreciation charge (Note 24)	(183)	(17.297)	(3.282)	(23.025)	(43.787)
Transfers	-	(4.509)	4.509	-	-
Disposals	-	-	33	2.193	2.226
At December 31	**(764)**	**(51.020)**	**(8.634)**	**(55.649)**	**(116.067)**
Net book amount at December 31	**8.410**	**49.330**	**9.955**	**61.771**	**129.466**

December 31, 2015	Land and buildings	Office equipment	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	9.174	53.129	17.192	76.033	155.528
Additions	-	26.389	7.874	27.616	61.879
At December 31	**9.174**	**79.518**	**25.066**	**103.649**	**217.407**
Accumulated depreciation and impairment					
At January 1	(397)	(16.014)	(5.315)	(16.840)	(38.566)
Depreciation charge (Note 24)	(183)	(13.199)	(4.581)	(17.976)	(35.939)
At December 31	**(580)**	**(29.213)**	**(9.896)**	**(34.816)**	**(74.505)**
Net book amount at December 31	**8.594**	**50.305**	**15.170**	**68.833**	**142.902**

12. Intangible assets

	December 31, 2016	December 31, 2015
Cost	166.883	138.376
Accumulated amortization(-)	68.076	39.348
Net book amount	**98.807**	**99.028**

(Amounts expressed in thousands of TL unless otherwise indicated.)

12. Intangible assets (continued)

Movements of other intangible assets were as follows:

December 31, 2016	**Rights and licenses**	**Software**	**Total**
Cost			
At January 1	1.129	137.247	138.376
Additions	-	28.507	28.507
At December 31, 2016	**1.129**	**165.754**	**166.883**
Accumulated amortization			
At January 1	(352)	(38.996)	(39.348)
Amortization charge (Note 24)	-	(28.728)	(28.728)
At December 31, 2016	**(352)**	**(67.724)**	**(68.076)**
Net book amount at December 31, 2015	**777**	**98.030**	**98.807**

December 31, 2015	**Rights and licenses**	**Software**	**Total**
Cost			
At January 1	1.129	76.973	78.102
Additions	-	60.274	60.274
At December 31, 2015	**1.129**	**137.247**	**138.376**
Accumulated amortization			
At January 1	(281)	(20.379)	(20.660)
Amortization charge (Note 24)	(71)	(18.617)	(18.688)
At December 31, 2015	**(352)**	**(38.996)**	**(39.348)**
Net book amount at December 31, 2015	**777**	**98.251**	**99.028**

(Amounts expressed in thousands of TL unless otherwise indicated.)

13. Other assets and Current Assets Held for Resale

	December 31, 2016	December 31, 2015
Loan related assets	127.967	29.637
Settlement accounts	19.995	41.197
Prepaid expenses (*)	43.107	37.438
Credit card receivables	9.574	5.108
Others	48.912	23.002
Total	**249.555**	**136.382**

(*) Prepaid expenses mainly constitute prepaid rents, charges and other items.

Movements in assets held for resale during the years, were as follows:

	December 31, 2016	December 31, 2015
Cost		
At January 1	29.879	6.132
Additions	19.496	23.747
Disposals	7.281	-
Translation differences	-	-
At December 31	**42.094**	**29.879**
Impairment		
At January 1	**-**	**-**
Reversal of impairment for the year, net	**-**	-
At December 31	**-**	**-**
Net book amount at December 31	**42.094**	**29.879**

(Amounts expressed in thousands of TL unless otherwise indicated.)

14. Deposits

	December 31, 2016	December 31, 2015
Customer deposits	28.051.505	24.329.086
Fiduciary and bank deposits	1.202.891	1.004.410
Total Deposits	**29.254.396**	**25.333.496**

December 31,2016	DEMAND			TIME			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	186.673	485.914	672.587	1.552.762	6.094.443	7.647.205	8.319.792
Retail	234.972	225.287	460.259	7.825.583	8.125.890	15.951.473	16.411.732
SME	186.757	136.984	323.741	787.543	2.208.697	2.996.240	3.319.981
Customer Deposits	**608.402**	**848.185**	**1.456.587**	**10.165.888**	**16.429.030**	**26.594.918**	**28.051.505**
Fiduciary and Bank Deposits	**17**	**-**	**17**	**-**	**1.202.874**	**1.202.874**	**1.202.891**
Grand Total	**608.419**	**848.185**	**1.456.604**	**10.165.888**	**17.631.904**	**27.797.792**	**29.254.396**

December 31,2015	DEMAND			TIME			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	480.341	441.398	921.739	1.798.451	5.875.383	7.673.834	8.595.573
Retail	89.858	229.698	319.556	6.724.047	7.550.704	14.274.751	14.594.307
SME	86.020	50.971	136.991	389.679	612.536	1.002.215	1.139.206
Customer Deposits	**656.219**	**722.067**	**1.378.286**	**8.912.177**	**14.038.623**	**22.950.800**	**24.329.086**
Fiduciary and Bank Deposits	**175**	**-**	**175**	**-**	**1.004.235**	**1.004.235**	**1.004.410**
Grand Total	**656.394**	**722.067**	**1.378.461**	**8.912.177**	**15.042.858**	**23.955.035**	**25.333.496**

(Amounts expressed in thousands of TL unless otherwise indicated.)

15. Debt securities issued, subordinated loans, due to banks and funds obtained under repurchase agreements

	December 31, 2016	December 31, 2015
Subordinated loan (a)	528.417	436.789
Due to banks (b)	3.436.189	3.133.469
Money Market Balances (c)	229.308	-
Debt Securities Issued (d)	-	154.995
Funds provided under repurchase agreement (e)	2.457	156.858
Total	**4.196.371**	**3.882.111**

(15-a) The Bank was provided a subordinated loan with a value of USD 150 million, maturity of 10 years and with a interest rate of 6,5% on October 31, 2014 from its parent bank, Bank Audi. In accordance with the article of BRSA dated November 27, 2014, this loan has been recognized as a subordinated loan and approved to be taken into account as TIER II capital, as per the conditions that determined by "Regulation on Equity of Banks".

(15-b) Information on due to banks:

a) Information on banks and other financial institutions:

	December 31, 2016			December 31, 2015		
	TL	FC	Total	TL	FC	Total
From Domestic Banks and Institutions	8.616	21.290	29.906	5.130	39.792	44.922
From Foreign Banks, Institutions and Funds	-	3.406.283	3.406.283	-	3.088.547	3.088.547
Total	**8.616**	**3.427.573**	**3.436.189**	**5.130**	**3.128.339**	**3.133.469**

b) Maturity analysis of borrowings:

	December 31, 2016			December 31, 2015		
	TL	FC	Total	TL	FC	Total
Short-term	5.861	1.153.434	1.159.295	4.666	1.822.297	1.826.963
Medium and long-term	2.755	2.274.139	2.276.894	464	1.306.042	1.306.506
Total	**8.616**	**3.427.573**	**3.436.189**	**5.130**	**3.128.339**	**3.133.469**

(15-c) Information on money market balances:

	December 31, 2016			December 31, 2015		
	TL	FC	Total	TL	FC	Total
From Central Bank of Turkey	-	229.308	229.308	-	-	-
Total	**-**	**229.308**	**229.308**	**-**	**-**	**-**

(Amounts expressed in thousands of TL unless otherwise indicated.)

15. Debt securities issued, subordinated loans, due to banks and funds obtained under repurchase agreements (continued)

Maturity analysis of money market balances:

	December 31, 2016			December 31, 2015		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Short-term	-	229.308	229.308	-	-	-
Medium and long-term		-	-	-	-	-
Total	**-**	**229.308**	**229.308**	**-**	**-**	**-**

(15-d) In accordance with the Board of Directors' decision and permits taken from the CMB and BRSA, the Bank has issued a bill with a nominal value of TL 160.160, January 18, 2016 and with a simple interest rate of 10.75 % on July 24, 2015 sold to qualified investors in the domestic market. The bank has no debt securities issued as of December 31, 2016.

(15-e) As of December 31, 2016, the Bank has also Funds provided under repurchase agreements amounting to TL 2.457 (December 31, 2015: TL 156.858).

16. Taxation

	December 31, 2016	December 31, 2015
Current tax income/expense	(119.628)	(36.013)
Deferred tax income	63.224	20.359
Tax income/(expense)	**56.404**	**(15.654)**
Income taxes currently payable	131.721	42.489
Prepaid taxes	(96.616)	(42.504)
Income taxes payable/(receivable)	**35.105**	**(15)**

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated June 21, 2006, corporation tax is payable at the rate of 20% effective from January 1, 2006 on the total income of the entities in Turkey after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or kept in a special fund for 5 years in accordance with the New Corporate Tax Law.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and if they find any corrections then the tax amount to be paid might be changed as well.

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Taxation (continued)

Deferred income taxes

For the Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled under the liability method using a principal tax rate of 20% at December 31, 2016.

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

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

	Cumulative Temporary Differences	Deferred Tax Asset/ Liability	Cumulative Temporary Differences	Deferred Tax Asset/ Liability
	December 31, 2016	**December 31, 2016**	**December 31, 2015**	**December 31, 2015**
Allowance for unused vacation and other short term employee benefits	62.441	12.488	55.331	11.067
Net Book Value and Tax Value Differences of Financial Assets and derivative financial liabilities	562.275	112.455	162.062	32.412
Deferred Commissions	76.251	15.250	67.422	13.484
Tax Losses	-	-	-	-
Provisions for loans and advances	129.253	25.851	99.253	19.851
Other	14.597	2.920	56.459	11.292
Free Provision	223.276	44.655	-	-
Deferred income tax assets	**1.068.093**	**213.619**	**440.527**	**88.106**
Net Book Value and Tax Value Differences of derivative financial assets	425.158	85.032	100.913	20.183
Difference between carrying value and tax base of property and equipment	33.613	6.723	29.862	5.972
Other	7.985	1.597	6.100	1.326
Deferred income tax liabilities	**466.756**	**93.352**	**136.875**	**27.481**
Deferred income tax assets, net	**601.337**	**120.267**	**303.652**	**60.625**

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Taxation (continued)

The movements of net deferred income taxes during the years were as follows:

	December 31, 2016	December 31, 2015
Balance at January 1	**60.625**	**30.165**
(Charge) / credit for the year, net	63.224	20.359
Available-for-sale revaluation reserve	(3.582)	10.101
Balance at December 31	**120.267**	**60.625**

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position.

Income tax effects relating to components of other comprehensive income

	December 31, 2016		
	Before tax amount	Tax (expense) benefit	Net-of tax amount
Fair value gains on available-for- sale financial assets	17.912	(3.582)	14.330
Other comprehensive income/(loss) for the year (net presentation)	17.912	(3.582)	14.330

	December 31, 2015		
	Before tax amount	Tax (expense) benefit	Net-of tax amount
Fair value gains on available-for- sale financial assets	(50.503)	10.101	(40.402)
Other comprehensive income/(loss) for the year (net presentation)	**(50.503)**	**10.101**	**(40.402)**

17. Employee benefits

	December 31, 2016	December 31, 2015
Employee termination benefit provision	8.459	4.983
Unused vacation provision	6.456	5.163
Personnel premium	47.526	44.477
Total of provision for employee benefits	**62.441**	**54.623**

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Employee benefits (continued)

Reserve for employment termination benefits

Under the Turkish Labour Law, the Bank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, who dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

The principal actuarial assumptions used at the dates of financial position are as follows:

	December 31, 2016	December 31, 2015
Discount rate in real terms	%2,94	3,24%
Interest rate	%9,62	8,04%
Estimated salary/ Employee termination benefit increase rate	%6,48	5,00%

18. Other liabilities and other provisions

Other Liabilities	December 31, 2016	December 31, 2015
Cheques in clearance	35.866	68.374
Unearned commissions	76.251	67.422
Taxes payable to banking operations	50.816	45.090
Social security duties	7.107	2.886
Due to national institute for guarantee of deposits	4.804	2.904
Miscellaneous payables	114.101	62.878
Total	**288.945**	**249.554**

Other Provisions	December 31, 2016	December 31, 2015
General reserve for possible risks	223.276	-
Total	**223.276**	**-**

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Share capital

As of December 31, 2016 the historic amount of paid-in share capital of the Bank consists of 3.288.842.000 authorized shares with a nominal value of TL 1 each.

The issued and fully paid-in share capital and share premium are as follows:

	December 31, 2016		December 31, 2015	
Shareholders	**Participation rate (%)**	**TL**	**Participation rate (%)**	**TL**
Bank Audi sal-Audi Group	73,610	2.420.930	93,827	1.403.787
European Bank for Reconstruction and Development	8,009	263.394	-	-
International Finance Corporation	6,362	209.252	-	-
IFC Financial Institutions Growth Fund L.P	3,426	112.674	-	-
H.H Sheikh Dheyab Binzayed Binsultan Al-Nahyan	4,004	131.697	-	-
Audi Private Bank sal	2,758	90.698	6,062	90.698
Mr.Mohammad Hassan Zeidan	1,780	58.532		
Raymond W. AUDI	0,017	555	0,037	555
Samir N. HANNA	0,017	555	0,037	555
Freddie C. BAZ	0,017	555	0,037	555
Historical share capital	**100,00**	**3.288.842**	**100,00**	**1.496.150**
Total share capital	**100,00**	**3.288.842**	**100,00**	**1.496.150**

(*)Pursuant to the approval of BRSA dated December 8, 2015, The Bank, on March 1, 2016, converted into TL the capital contribution which were obtained from its controlling shareholder Bank Audi sal amounting to total USD 300 million, and completed the necessary legal and administrative procedures with the relevant authorities and added its converted amount to TL 883.530 to the paid in capital on March 31, 2016. On August 10, 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L., TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.a.r.l, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

20. Other Reserves

	December 31, 2016	December 31, 2015
Statutory reserve	-	-
Revaluation reserve - available-for-sale investments	(28.741)	(43.071)
Other reserve(*)	(2.198)	-
Total other reserves	**(30.939)**	**(43.071)**

(*) As per Turkish Account Standards 32, the Bank accounted stamp tax expenses and competition board fees resulted from the capital increase transaction amounting TL 2.198 under equity.

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

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

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

Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless the reserve exceeds 50% of paid-in share capital.

(Amounts expressed in thousands of TL unless otherwise indicated.)

21. Net interest income

	December 31, 2016	December 31, 2015
Interest & similar income		
Loans and advances to customers	2.321.170	1.948.124
Reverse repurchase agreements	215.106	191.093
Due from banks & financial institutions	73.258	93.076
AFS financial assets	81.039	77.737
Other interest & similar income	286.283	60.608
Cash and balances with Central Banks	35.353	15.173
Financial assets classified at amortized cost	13.553	13.070
Financial assets held at fair value through profit and loss	1.379	2.043
Total interest & similar income	**3.027.141**	**2.400.924**
Interest & similar expense on:		
Customers deposits	1.475.996	1.269.788
Other interest and similar charges	447.389	289.403
Due to banks and financial institutions	66.418	45.909
Subordinated loans and similar debts	30.399	26.653
Debt issued & other borrowed funds	9.909	18.685
Repurchase agreement	17.726	12.056
Total interest & similar expense	**(2.047.837)**	**(1.662.494)**
Net interest income	**979.304**	**738.430**

22. Net fee and commission income

	December 31, 2016	December 31, 2015
Fee and commission income on:		
General banking income	20.627	13.032
Brokerage and Custody Income	1.726	2.719
Trade Finance Income	33.256	25.116
Electronic Cards	39.234	30.088
Insurance Income	6.804	5.884
Corporate Finance	32.878	39.687
Other Fees and commissions	18.775	9.226
Total fee and commission income	**153.300**	**125.752**
Fee and commission expense on:		
General banking expense	(7.514)	(5.718)
Electronic cards	(15.960)	(11.920)
Other	(18.768)	(9.880)
Total fee and commission expense	**(42.242)**	**(27.518)**
Net fee and commission income	**111.058**	**98.234**

(Amounts expressed in thousands of TL unless otherwise indicated.)

23. Net trading and fair value income and net gains / losses from investment securities

	December 31, 2016	December 31, 2015
Net trading and fair value gains and losses (*)	42.790	44.005
Foreign exchange gains/losses (*)	(24.413)	(20.042)
Treasury Bills and Bonds (**)	337.033	(1.910)
Total	**355.410**	**22.053**

(*) Foreign exchange gains/losses include the spot legs of forward contracts and options in addition to the translated foreign currency assets and liabilities.

(**) During 2016, Odeabank purchased USD denominated Eurobonds through sale of LBP T-Bills (nominal amount of 595 billion) with the Central Bank of Lebanon that generated capital gains of TL 349.555 as at year end.

24. Other operating expenses

	December 31, 2016	December 31, 2015
Personnel expenses	**286.948**	**251.722**
Salaries and related benefits	226.416	201.819
Food and Beverage	5.304	5.009
Medical and life insurance	7.415	6.391
Social and regulatory expenses	23.352	17.915
Training and Seminars	2.640	2.199
Transportation	16.305	14.303
Charges for end of service benefits	3.476	2.294
Other staff expenses	2.040	1.792
Other operating expenses	**291.342**	**222.329**
Buildings rental and related expenses	71.263	60.390
Maintenance Machines and Material	4.757	3.228
Insurance premiums	1.471	1.470
Advertising fees	41.057	36.077
Telephone and mailing expenses	10.907	10.644
Subscription to communication services	3.715	3.534
Office supplies	3.117	3.547
Information technology	36.770	30.163
Professional and outsourcing fees	33.445	25.017
Regulatory fees	11.188	9.333
Taxes and similar disbursements	35.065	10.851
Credit cards expenses	9.663	7.269
Premium for guarantee of deposits	15.121	10.625
Other expenses	13.803	10.181
Depreciation of property & equipment	**44.406**	**35.939**
Amortization of intangible assets	**28.783**	**18.688**
Total	**651.479**	**528.678**

25. General reserve for possible risks

	December 31, 2016	December 31, 2015
General reserve for possible risks	223.276	-
Total	**223.276**	**-**

(Amounts expressed in thousands of TL unless otherwise indicated.)

26. Commitments and contingent liabilities

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

Legal proceedings

As of the balance sheet date, there are no lawsuits filed against the Bank and for which provision has been booked due to their likelihood of being lost. The Bank has not any contingent liability with a high probability of realization regarding continuing lawsuits.

Credit related commitments

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

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

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

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

December 31, 2016(*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	571.553	-	-	571.553
Letter of guarantees	-	2.214.062	-	-	2.214.062
Acceptance credits	-	114.523	-	-	114.523
Other commitments	-	-	-	-	-
Total	**-**	**2.900.138**	**-**	**-**	**2.900.138**

December 31, 2015(*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	480.011	-	-	480.011
Letter of guarantees	-	1.748.730	-	-	1.748.730
Acceptance credits	-	68.037	-	-	68.037
Other commitments	-	-	-	-	-
Total	**-**	**2.296.778**	**-**	**-**	**2.296.778**

(*) Based on expected maturities.

(Amounts expressed in thousands of TL unless otherwise indicated.)

26. Commitments and contingent liabilities (continued)

Assets Under Management

Assets under management include client assets managed or deposited with the Bank, where, the client decides how these assets are to be invested.

As of December 31, 2016, assets under management comprise of mutual funds and bills and bonds amounting TL 253.145 (December 31, 2015: TL 214.652).

27. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Bank Audi.

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

(i) Balances with related parties:

	December 31, 2016	**December 31, 2015**
Other related parties		
Deposits	8.623	749.101
Direct and indirect shareholders of the Bank		
Deposits	1.202.909	298.961
Direct and indirect shareholders of the Bank		
Debt securities and other funds borrowed	528.417	742.407
Total liabilities	**1.739.949**	**1.790.469**
Other related parties		
Credit related commitments	80	480
Direct and indirect shareholders of the Bank		
Commitment under derivative instruments	-	-
Credit related commitments	16.028	16.290
Total commitments and contingent liabilities	**16.108**	**16.770**

(ii) Transactions with related parties:

	December 31, 2016	**December 31, 2015**
Total interest and fee income	**-**	**-**
Interest expense on deposits	27.964	19.576
Interest expense on derivative transactions	-	-
Interest expense on debt securities and other funds borrowed	953	32.190
Total interest and fee expense	**28.917**	**51.766**

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

Gross payment made to the executive management in 2016 is TL 27.621.

28. Subsequent events

None.