TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2016
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

Our opinion

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

What we have audited

The Group's consolidated financial statements comprise:

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

Basis for opinion

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

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

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
BJK Plaza, Süleyman Seba Caddesi No:48 B Blok Kat:9 Akaretler Beşiktaş 34357 İstanbul-Turkey
T: +90 212 326 6060, F: +90 212 326 6050, www.pwc.com.tr   Mersis Numaramız: 0-1460-0224-0500015

Independence

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

Our audit approach

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and receivables *Please see Note 10 in the consolidated financial statements.* *We focused on this area due to the size of loans and receivables, level of judgement applied by management in determining timing of recognition of impairment and the estimation of the size of any such impairment.* *In particular we focused on:* • *Identification of loss events, which requires judgement to determine whether a loss has been incurred;* • *Judgements applied to calculate impairment provisions, such as the methodologies used for impairment calculated on a modeled basis, forecasts for future cash flows and valuation of collaterals;* • *The principal assumptions underlying the calculation of impairment provisions for collectively assessed portfolios, the models used to make the calculations and adjustments made to the results of these models.*	We assessed and tested the design and operating effectiveness of the controls over the monitoring, identification of which loans and receivables are impaired and the calculation of impairment provisions. We determined that we could rely on these controls for the purpose of our audit. We understood management's basis for determining whether a loan is impaired and assessed the reasonableness using our understanding of the Group's lending portfolios and industry knowledge. In this context, we performed a loan review process by testing a sample of performing loans and receivables to ascertain whether the loss event had occurred and whether the loss event had been identified in a timely manner. Furthermore, we tested a sample of loans and receivables which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties. For customers in sectors that are currently experiencing difficult market conditions, we increased the size of our sample testing for cases individually assessed also including customers identified on watch-list. We tested individually impaired loans on a sample basis. Within the context of our detailed testing, we checked management's calculations by testing the forecasts of future cash flows prepared for impairment calculation, challenged the assumptions and compared estimates to external evidence where available.

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of Pension Obligations *Please see Note 2 and 29 in the consolidated financial statements.* *We focused on this area, because small changes in assumptions can result in material impacts to the net pension asset or liability.* *The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. These pension obligations are calculated with reference to a number of actuarial assumptions and inputs, including discount rate, rate of inflation and mortality rates.* *The treatment of curtailments, settlements, past service costs, remeasurements and other amendments can significantly impact the statement of financial position and results of the Group.*	We understood and tested key controls over the completeness and accuracy of data supplied to the independent actuarial company, which is used for the fair value calculation of pension assets and estimation of obligations. In addition, we tested a sample of the employee data used in calculating the obligation for accuracy. We tested the existence and fair value of the pension's assets. We also obtained an understanding of the process for determining and approving the underlying assumptions and valuations used by the independent actuary. We found no material exceptions in these tests. We engaged our actuarial specialists and met with management and their independent actuary to understand the judgements made in determining key economic assumptions used in the calculation of the liability. We assessed the reasonableness of those assumptions by comparing to our own independently determined benchmarks and concluded the assumptions used by management were appropriate. Based on the evidence obtained, we found that the data and assumptions used by management in the actuarial valuations and the fair value of the scheme assets are within a range we consider to be reasonable.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Zeynep Uras, SMMM
Partner

Istanbul, 28 April 2017

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS **PAGE**

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

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

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and balances with central banks	6	29,590,759	27,613,362
Financial assets at fair value through profit or loss	7	1,789,259	995,929
Loans and advances to banks	9	130,157	242,592
Loans and advances to customers	10	150,186,051	125,855,872
Investment securities	12	26,926,959	25,129,730
Investments in associates	13	296,772	263,182
Property and equipment	14	1,818,488	1,777,370
Intangible assets	14	353,754	329,864
Current tax asset		2,480	3,731
Deferred tax asset	23	589,665	473,799
Other financial assets	15	1,876,348	644,859
Other assets	15	5,378,871	4,783,469
Total assets		**218,939,563**	**188,113,759**
LIABILITIES AND EQUITY			
Trading liabilities	16	1,154,424	304,352
Deposits from banks	17	7,854,914	6,811,975
Deposits from customers	18	121,069,628	106,335,452
Obligations under repurchase agreements	8	10,465,424	11,593,698
Funds borrowed	19	26,299,430	20,195,047
Debt securities issued	20	14,682,824	10,646,708
Subordinated liabilities	21	5,014,700	4,155,551
Other liabilities and provisions	22	11,898,387	10,075,731
Corporate tax liability	23	157,549	233,004
Deferred tax liability	23	19,531	19,574
Total liabilities		**198,616,811**	**170,371,092**
Equity attributable to owners of the parent			
Share capital		3,300,146	3,300,146
Share premium		724,352	724,352
Revaluation surplus		676,238	652,348
Other reserves		1,494,405	1,415,913
Retained earnings		13,419,948	11,013,438
Total equity attributable to owners of the parent		**19,615,089**	**17,106,197**
Non-controlling interests	**25**	**707,663**	**636,470**
Total equity		**20,322,752**	**17,742,667**
Total liabilities and equity		**218,939,563**	**188,113,759**
Commitments and contingencies	**31**	**80,486,372**	**67,967,945**

The notes on pages 7 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	1 January - 31 December 2016	1 January - 31 December 2015
Interest income			
Interest on loans and receivables		14,378,329	11,698,267
Interest on securities		2,200,154	2,044,412
- *Trading financial assets*		*8,940*	*24,822*
- *Available-for-sale financial assets*		*1,508,767*	*1,388,083*
- *Held-to-maturity investments*		*682,447*	*631,507*
Interest on deposits at banks		122,597	81,693
Interest on money market placements		600	1,633
Other interest income		233,139	120,004
Total interest income		**16,934,819**	**13,946,009**
Interest expense			
Interest on deposits		(7,185,744)	(6,106,779)
Interest on money market deposits		(1,007,022)	(886,728)
Interest on funds borrowed		(508,116)	(362,500)
Interest expense on securities issued		(691,897)	(595,176)
Other interest expense		(326,433)	(278,061)
Total interest expense		**(9,719,212)**	**(8,229,244)**
Net interest income		**7,215,607**	**5,716,765**
Fee and commission income		1,458,572	1,351,394
Fee and commission expense		(547,677)	(481,113)
Net fee and commission income	**27**	**910,895**	**870,281**
Other operating income			
Net trading income		378,849	26,998
Net foreign exchange gains/(losses)		129,759	120,454
Other income	28	1,368,703	1,346,409
Total other operating income		**1,877,311**	**1,493,861**
Other administrative and operating expenses			
Salaries and employee benefit expenses	29	(1,862,820)	(1,730,629)
Incurred loan losses, net of recoveries		(1,640,778)	(1,334,781)
Depreciation and amortization expense		(173,652)	(154,651)
Taxes other than on income		(141,740)	(125,706)
Other expenses	30	(2,794,442)	(2,939,232)
Total other administrative and operating expenses		**(6,613,432)**	**(6,284,999)**
Share of profit of associates accounted for using the equity method		40,389	37,770
Profit before income tax		**3,430,770**	**1,833,678**
Income tax expense	23	(671,347)	(350,772)
Profit for the year		**2,759,423**	**1,482,906**

CONSOLIDATED PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	31 December 2016	31 December 2015
Other comprehensive income			
Items that will never be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		2,258	1,225
Revaluation of property, plant and equipment		18,859	788,532
Related tax		(4,224)	(45,091)
		16,893	**744,666**
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		61,169	42,102
Net change in fair value of available for sale financial assets		(216,464)	(644,184)
Fair value differences of available for sale financial assets transferred to profit or loss		(5,576)	36,105
Related tax	23	46,837	116,347
Other comprehensive income for the year, net of income tax		**(97,141)**	**295,036**
Total comprehensive income for the year		**2,662,282**	**1,777,942**
Profit attributable to:			
Owners of the Bank		2,756,894	1,556,588
Non-controlling interest	25	2,529	(73,682)
Profit for the year		**2,759,423**	**1,482,906**
Total comprehensive income attributable to:			
Owners of the Bank		2,661,030	1,757,239
Non-controlling interest		1,252	20,703
Total comprehensive income for the year		**2,662,282**	**1,777,942**
Basic and diluted earnings per share on profit for the year (full TL)	24	0.0110	0.0062

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Attributable to Owners of the Parent									
			Reserves							
	Share Capital	Share premium	Fair value reserves	Revaluation Surplus	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2016	**3,300,146**	**724,352**	**15,483**	**652,348**	**156,616**	**1,243,814**	**11,013,438**	**17,106,197**	**636,470**	**17,742,667**
Profit for the period	-	-	-	-	-	-	**2,756,894**	**2,756,894**	**2,529**	**2,759,423**
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Re-measurements of defined benefit plans	-	-	-	-	-	-	2,098	**2,098**	(292)	**1,806**
Change in revaluation surplus	-	-	-	23,890	-	-	-	**23,890**	(8,803)	**15,087**
Foreign currency translation differences	-	-	-	-	53,690	-	422	**54,112**	7,057	**61,169**
Net change in fair value of available for sale financial assets, net of tax	-	-	(170,388)	-	-	-	-	**(170,388)**	761	**(169,627)**
Fair value differences of available for sale financial assets transferred to profit or loss	-	-	(5,576)	-	-	-	-	**(5,576)**	-	**(5,576)**
Other items	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(175,964)**	**23,890**	**53,690**	**-**	**2,520**	**(95,864)**	**(1,277)**	**(97,141)**
Total comprehensive income for the period	**-**	**-**	**(175,964)**	**23,890**	**53,690**	**-**	**2,759,414**	**2,661,030**	**1,252**	**2,662,282**
Transfer to reserves	-	-	-	-	-	200,766	(200,766)	-	-	-
Dividends paid	-	-	-	-	-	-	(101,912)	**(101,912)**	(327)	**(102,239)**
Other items	-	-	-	-	-	-	(50,226)	**(50,226)**	70,268	**20,042**
Total contributions by and distributions to owners of the parent, recognized directly in equity	**-**	**-**	**-**	**-**	**-**	**200,766**	**(352,904)**	**(152,138)**	**69,941**	**(82,197)**
Balances at 31 December 2016	**3,300,146**	**724,352**	**(160,481)**	**676,238**	**210,306**	**1,444,580**	**13,419,948**	**19,615,089**	**707,663**	**20,322,752**

The notes on pages 7 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Attributable to Owners of the Parent									
			Reserves							
	Share Capital	Share premium	Fair value reserves	Revaluation Surplus	Currency translation reserve	Legal reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2015	**3,300,146**	**724,316**	**506,220**	**-**	**118,470**	**1,076,894**	**9,721,220**	**15,447,266**	**619,460**	**16,066,726**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**1,556,588**	**1,556,588**	**(73,682)**	**1,482,906**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	1,889	1,889	(909)	980
Change in revaluation surplus	-	-	-	652,348	-	-	-	652,348	91,338	743,686
Foreign currency translation differences	-	-	-	-	38,146	-	-	38,146	3,956	42,102
Net change in fair value of available for sale financial assets, net of tax	-	-	(526,842)	-	-	-	(995)	(527,837)	-	(527,837)
Fair value differences of available for sale financial assets transferred to profit or loss	-	-	36,105	-	-	-	-	36,105	-	36,105
Other items	-	36	-	-	-	-	(36)	-	-	-
Total other comprehensive income	**-**	**36**	**(490,737)**	**652,348**	**38,146**	**-**	**858**	**200,651**	**94,385**	**295,036**
Total comprehensive income for the period	**-**	**36**	**(490,737)**	**652,348**	**38,146**	**-**	**1,557,446**	**1,757,239**	**20,703**	**1,777,942**
Transfer to reserves	-	-	-	-	-	166,920	(166,920)	-	-	-
Dividends paid	-	-	-	-	-	-	(100,000)	(100,000)	(1,547)	(101,547)
Other items	-	-	-	-	-	-	1,692	1,692	(2,146)	(454)
Total contributions by and distributions to owners of the parent, recognized directly in equity	**-**	**-**	**-**	**-**	**-**	**166,920**	**(265,228)**	**(98,308)**	**(3,693)**	**(102,001)**
Balances at 31 December 2015	**3,300,146**	**724,352**	**15,483**	**652,348**	**156,616**	**1,243,814**	**11,013,438**	**17,106,197**	**636,470**	**17,742,667**

The notes on pages 7 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	1 January - 31 December 2016	1 January - 31 December 2015
Profit for the year		2,759,423	1,482,906
Adjustments for:			
Income tax expense	23	671,347	350,772
Provision for incurred loan losses, net of recoveries		1,640,778	1,334,781
Depreciation and amortization	14	173,652	154,651
Provision for short term employee benefits	29	3,155	3,961
Provision for retirement pay liability and unused vacations	29	203,093	183,916
Unearned premium reserve	28	37,012	55,910
Change in provision for outstanding claims	30	59,683	316,641
Other provision expenses	30	132,035	135,504
Net interest income		(7,215,607)	(5,716,765)
Share of profit of equity-accounted investees		(40,389)	(37,770)
Currency translation differences		52,699	38,146
Other non-cash adjustments		(378,640)	(749,628)
		(1,901,759)	**(2,446,975)**
Loans and advances to banks		112,435	322,323
Reserve deposits		3,433,333	(2,283,425)
Financial assets at fair value through profit or loss		(68,102)	(42,696)
Loans and advances to customers		(27,737,128)	(20,419,791)
Other assets		(5,472,977)	459,937
Deposits from banks		1,044,956	1,593,474
Deposits from customers		14,702,875	17,738,859
Obligation under repurchase agreements		(1,118,520)	(4,597,442)
Other liabilities and provisions		1,154,661	1,785,227
		(13,948,467)	**(5,443,534)**
Interest received		16,408,716	13,024,334
Interest paid		(8,730,410)	(6,028,278)
Taxes paid		(823,176)	(435,446)
Cash used in operating activities		**(8,995,096)**	**(1,329,899)**
Cash flows from investing activities:			
Dividends received	28	14,160	9,231
Acquisition of property and equipment		(254,421)	(507,822)
Proceeds from the sale of property and equipment		443,593	717,663
Acquisition of intangible assets		(66,644)	(198,022)
Proceeds from the sale of intangible assets		8,348	229
Acquisition of investment securities		(8,510,553)	(9,333,705)
Proceeds from sale of investment securities		7,140,442	8,894,591
Cash provided/(used in) by investing activities		**(1,225,075)**	**(417,835)**
Cash flows from financing activities:			
Proceeds from issue of debt securities		17,523,615	10,079,268
Repayments of debt securities		(8,831,100)	(7,612,999)
Proceeds from funds borrowed		10,526,411	9,518,542
Repayments of funds borrowed		(9,174,937)	(7,822,660)
Dividends paid		(102,239)	(101,547)
Cash provided by financing activities		**9,941,750**	**4,060,604**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		53,516	(30,472)
Net increase/(decrease) in cash and cash equivalents		**(224,905)**	**2,282,398**
Cash and cash equivalents at the beginning of the year		27,396,707	25,114,309
Cash and cash equivalents at the end of the year	**6**	**27,171,802**	**27,396,707**

The notes on pages 7 to 77 are an integral part of these consolidated financial statements

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

1. GENERAL INFORMATION

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("The Bank" or "The Parent") was established under the authorization of special law numbered 6219, called "The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed,
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 921 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2015: 917 domestic, 3 foreign, in total 920 branches). As at 31 December 2016, the Bank has 15,615 (31 December 2015: 15,410) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank's head office is located at Sultan Selim Mahallesi, Eski Büyükdere Caddesi, No:59, Kağıthane- İstanbul.

The shareholder holding control over the Bank is the General Directorate of the Registered Foundations represented by the Turkish Republic General Directorate of the Foundations which is set up under Prime Ministry of Turkish Republic having 58.45% of the Bank's outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank. The shares of the Bank are quoted to Borsa İstanbul A.Ş. (BIST) and traded publicly.

As at 31 December 2016 and 2015 The Bank's paid-in capital amounted to TL 2,500,000 divided into 250,000,000,000 shares with a nominal value of 1 Kuruş each (TL 1 equals Kuruş 100).

As at 31 December 2015 the Bank's shareholders' structure is as follows:

Shareholders	Number of the shares (100 units)	Nominal amount	Share (%)
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,823,304	2,823	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,532,626	1,533	0.06
Publicly traded (Group D)	630,359,436	630,360	25.22
Paid-in capital	**2,500,000,000**	**2,500,000**	**100.00**
Adjustment to share capital		800,146	
Total		**3,300,146**	

The adjustment to share capital represents the cumulative restatement adjustment amount to nominal share capital on adopting IAS 29, "Financial reporting in hyper-inflationary economies" until 1 January 2006. These consolidated financial statements were approved for issue on 28 April 2017. General Assembly and regulatory authorities have the rights to change the financial statements after published.

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

1. GENERAL INFORMATION (Continued)

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 31 December 2016 and 31 December 2015.

31 December 2016	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
Güneş Sigorta A.Ş. (*)	48.20	48.20
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	22.89	34.57
Vakıf Emeklilik A.Ş.	53.90	79.74
Vakıf Enerji ve Madencilik A.Ş.	65.50	85.53
Taksim Otelcilik A.Ş.	51.00	51.69
Vakıf Faktoring A.Ş.	78.39	88.70
Vakıf Finansal Kiralama A.Ş.	58.71	66.26
Vakıf Yatırım Menkul Değerler A.Ş.	99.00	99.48
Vakıf Portföy Yönetimi A.Ş.	100.00	100.00
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	38.70	40.87
World Vakıf UBB Ltd in Liquidation (**)	82.00	82.25
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

(*) For those consolidated subsidiaries where the Bank does not own, directly or indirectly through subsidiaries, more than 50% of the subsidiary's voting power, proportion of ordinary shares held by the Group entitles the Bank to power over relevant activities - acquired through arrangements between shareholders or articles of association of the related subsidiary - and to variable returns from its involvement with the subsidiary while the bank has the ability to affect those returns through its power over the subsidiary.

(**) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. The liquidation process of World Vakıf UBB Ltd, has been carried out by NCTR Collecting and Liquidation Office. The application of the subsidiary for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the name of the subsidiary has been changed as “World Vakıf UBB Ltd. in Liquidation”. Therefore, the financial statements of the subsidiary have not been consolidated as at 31 December 2016 and 31 December 2015.

For the purposes of these consolidated financial statements, the Bank and its consolidated subsidiaries described below are referred to as the “Group”.

Güneş Sigorta AŞ was established under the leadership of the Bank and Soil Products Office in 1957. The subsidiary provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection and loan insurance. Its head office is in Istanbul.

Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ was established in 1991 in Istanbul. The main activity of the subsidiary is to invest in a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Vakıf Emeklilik AŞ was established under the name Güneş Hayat Sigorta AŞ nin 1991. In 2003 the subsidiary has taken conversion permission from the related regulatory body and started to operate both in pension business. Its head office is in Istanbul.

1. GENERAL INFORMATION (Continued)

Vakıf Enerji ve Madencilik A.Ş. was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik AŞ was established under the Turkish Commercial Code in 1966. The main activity of the subsidiary is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

Vakıf Faktoring AŞ was established in 1998 to perform factoring transactions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler AŞ was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi AŞ operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıfbank International AG was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank’s globalization policy. Its head office is in Vienna, Austria.

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The subsidiary’s main operation is in line with the scope in the Capital Markets Board’s regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in İstanbul.

The Bank has also the following associates:

Kıbrıs Vakıflar Bankası Ltd. Şti. was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Standards Interpretation Committee (“IFRIC”).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In preparation of the consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the prior year consolidated financial statements except for the adoption of new standards and interpretations as of 1 January 2016, where applicable, noted below:

2.2. New and Revised International Financial Reporting Standards

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

- IFRS 9 'Financial instruments', effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

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

- IFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

  - IFRS 1,' First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
  - IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
  - IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

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

The new standards, amendments and interpretations which will be effective after 1 January 2017 are not expected to have a material impact on the Group's consolidated financial statements except for the adoption of IFRS 9. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

2.3. Summary of Significant Accounting Policies, Judgments and Estimates

Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 - Financial Reporting in Hyperinflationary Economies as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

Functional and Presentation Currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except if indicated, financial information presented in TL has been rounded to the nearest thousand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Judgments and Estimates

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

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

Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 2 (i) - impairment of financial assets.

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a debtor’s financial situation and the net realizable value of any underlying collateral.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

Collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or for small portfolios with insufficient information, a formula approach based on historic loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimates the amount of loss. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and advances to customers as of 31 December 2016 is TL 150,186,051 (31 December 2015: TL 125,855,872) net of impairment allowance of TL 7,788,891 (31 December 2015: TL 6,195,582).

Collective allowance for groups of assets that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in equity securities were evaluated for impairment on the basis described in Note 2 (i) - *impairment of financial assets*.

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

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

Fair value

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

The Group's accounting policy on fair value measurements is discussed in (i) - *Measurement*.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly-i.e. as prices-or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation

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

Subsidiaries are those investees, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but not control are accounted for using the equity method.

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

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognized as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents functional currency of the group's entities except for World Vakıf UBB Ltd. in Liquidation and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates ruling at the end of reporting period with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. In Liquidation and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

- The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the end of the respective reporting period.
- The income and expenses of foreign operations are translated to TL using average exchange rates.
- Foreign currency differences arising from the translation of the financial statements of the foreign operations into TL for consolidation purpose are recognized in other comprehensive income and accumulated in the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the full amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Interest

Interest income and expense are recognized in the consolidated profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

Interest income and expense presented in the consolidated statement of profit or loss and other comprehensive income include:

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

(d) Fees and commission

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Net trading income

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

(f) Dividends

Dividend income is recognized when the right to receive the income is established. Dividends are reflected as a component of other operating income.

(g) Leases

The Group as the lessee

<u>*Operating leases*</u>

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

<u>*Finance leases*</u>

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

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

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

The Group as the lessor

<u>*Finance leases*</u>

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

(h) Income taxes

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

Corporate tax

Turkey

Statutory income is subject to corporate tax at 20.0%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

75% of gains on disposal of equity shares and immovables which were held for at least 2 years within the assets of acquired entities after acquisition are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open to inspection for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue assessments based on their findings.

Foreign subsidiary

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities outside a business combination which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to set off current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities related to same taxable entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

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

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue tax assessments based on their findings.

Investment incentives

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments

Recognition

The Group initially recognizes loans and advances and deposits on the date which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

Classification

Financial assets at fair value through profit or loss are trading financial assets acquired principally with the intention of disposal within a short period for the purpose of short-term profit making and derivative financial instruments. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss under other liabilities and provisions.

Held-to-maturity investment securities are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. These include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date (“reverse repo” or “stock borrowing”), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group’s financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Available-for-sale financial assets are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

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

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortized cost less impairment losses. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

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

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

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

Gains and losses on subsequent measurement

Gains and losses arising on investment held for trading are recognized in profit and loss.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognized as other comprehensive income in the fair value reserve for available-for-sale financial assets. When the financial assets are sold, collected or otherwise disposed of, the related cumulative gain or loss recognized in the other comprehensive income is transferred to profit or loss. Interest earned whilst holding available-for-sale financial assets, held-to-maturity securities and financial assets at fair value through profit or loss is reported as interest income in the consolidated statement of comprehensive income.

De-recognition

A financial asset is derecognized when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Available-for-sale financial assets and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on de-recognition.

Held-to-maturity assets and loans and receivables are derecognized on the date they are transferred by the Group.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting

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

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

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

Investment securities: Investment securities are the financial assets that are classified as held-to-maturity financial assets and available-for-sale financial assets.

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

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

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortized cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits, funds borrowed, debt securities issued and subordinated liabilities: Deposits, funds borrowed, debt securities issued and subordinated liabilities are the Group's sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortized cost using the effective interest method.

Impairment of financial assets

Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

- adverse changes in the payment status of borrowers; or
- national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as non- performing.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured considering the amount that could be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the profit or loss.

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount.

Assets carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to profit or loss.

(j) Repurchase transactions

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

(k) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The Group pursues only the properties for use according to their fair values in terms of separating the land and buildings within the context of IAS 16 as at 31 December 2016. As a result of the valuation by the independent appraisal company, revaluation difference of TL 676,238 after deferred tax effect is followed as the revaluation surplus under shareholder's equity.

Gains/losses arising from the disposal of the property and equipment are recognized in profit or loss and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense unless they extend the economic useful life of related asset.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods. Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	**Estimated useful lives (years)**	**Depreciation Rates (%)**
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Vehicles obtained through finance leases	4-5	20-25

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both. The Group holds investment property as a consequence of the ongoing operations of its consolidated real estate and insurance companies.

Investment properties are measured initially at cost including transaction costs.

(m) Intangible assets

The Group's intangible assets consist of software programs. Intangible assets are recorded at cost. The costs of the intangible assets purchased before 31 December 2005 are restated for the effects of inflation from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortization rates applied are between 33.33% and 6.67%.

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for as particular asset or a group of assets, then that asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(o) Provisions

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

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

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	7.5	5.0

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

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008.

Pension and medical benefits transferable to SSF:

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

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the “Social Insurance and General Health Insurance Law no. 5510’’ published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial valuation:

The technical financial statements of the Fund are audited by the certified actuary according to the “Actuaries Regulation” which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated January 2017, there is no technical or actual deficit determined which requires provision against.

Transferable Retirement and Health Liabilities:	**31 December 2016**	**31 December 2015**
Net Present Value of Transferable Retirement Liabilities	(4,843,316)	(4,364,906)
Net Present Value of Transferable Retirement and Health Contributions	3,352,762	2,931,182
General Administration Expenses	(86,552)	(64,883)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(1,577,107)	(1,498,607)
Fair Value of Plan Assets (2)	4,299,662	3,898,590
Asset Surplus over Transferable Benefits ((2)-(1)=(3))	2,722,555	2,399,983
Non-Transferable Benefits (4) *	(1,721,999)	(1,336,045)
Asset Surplus over Total Benefits ((3)-(4))	1,000,556	1,063,938

(*) Non Transferable Benefits: Non Transferable Benefits are accepted to be continued after the transition of the Transferable Benefits to the SSF and be stated as liability in the Fund’s articles (ruled by the law 5510, Provisional Article 20).

Actuarial assumptions used in valuation of Non Transferable Benefits based on IAS 19 are as follows:

Discount Rates	**31 December 2016**	**31 December 2015**
Benefits Transferable to SSF	9,80%	9.80%
Non Transferable Benefits	2,50%	2,50%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	31 December 2016	31 December 2015
Bank placements	2,210,264,974	1,961,509,335
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	-	-
Tangible assets [(*)]	1,854,147,648	1,693,252,486
Other	235,249,148	243,828,530
Total	**4,299,661,770**	**3,898,590,351**

(*) The tangible assets value indicates all the stocks' and real estate properties' market values, as of December 31, 2016.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(q) Items held in trust

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

(r) Financial guarantees

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

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

(s) Insurance business

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

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

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

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends ("Actuarial Chain Ladder Method"). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Receivables from reinsurance activities: In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. There receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(t) Individual pension business

Individual pension system receivables presented under ‘other assets’ in the accompanying consolidated financial statements consists of ‘receivable from pension investment funds for investment management fees’, ‘entrance fee receivable from participants’ and ‘receivables from the clearing house on behalf of the participants’. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated profit or loss and other comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants’ contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years ‘staying period’. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognize the entrance fee as revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated profit or loss and other comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There are no potentially dilutive instruments. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

(v) Subsequent events

Post-balance sheet events that provide additional information about the Group’s position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(w) Segment reporting

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

2.4 Statement of Cash Flows

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

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

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

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

3. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk,

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated 28 June 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank’s other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio’s distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2015, consumer loans are excluded from the internal rating system of the Bank. The risks that are subject to rating models can be allocated as follows:

Category as of 31 December 2016	**Share in the Total %**
Above average	45.30
Average	43.54
Below average	2.77
Unrated	8.39
Total	**100.00**

Exposure to credit risk

	Loans and advances to customers		**Other assets expose to credit risk (inc. financial assets other than loans and advances to customers)**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Individually impaired	7,083,466	5,497,537	159,746	119,254
Specific impairment	(5,657,521)	(4,347,651)	(139,160)	(99,318)
Carrying amount	**1,425,945**	**1,149,886**	**20,586**	**19,936**
Past due but not impaired	5,101,397	4,761,044	-	-
Carrying amount	**5,101,397**	**4,761,044**	-	-
Neither past due nor impaired	142,804,647	120,016,130	76,386,549	65,865,438
Loans with renegotiated terms	2,985,432	1,776,743	-	-
Carrying amount	**145,790,079**	**121,792,873**	76,386,549	**65,865,438**
Collective impairment	(2,131,370)	(1,847,931)	-	-
Total carrying amount	**150,186,051**	**125,855,872**	**76,407,135**	**65,885,374**

As at 31 December 2016 and 2015, the Group has no allowance for loans and advances to banks and for investment securities.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

Gross maximum exposure	**31 December 2016**	**31 December 2015**
Cash and balances with central banks (excluding cash on hand)	27,800,717	26,173,351
Financial assets at fair value through profit or loss	1,789,259	995,929
Loans and advances to banks	130,157	242,592
Loans and advances to customers	150,186,051	125,855,872
Investment securities	26,926,959	25,129,730
Other financial assets	1,876,348	644,859
Other assets	5,378,871	4,783,469
Total	**214,088,362**	**183,825,802**
Financial guarantees	40,479,447	33,119,901
Loan commitments	40,006,925	34,848,044
Total	**80,486,372**	**67,967,945**
Total credit risk exposure	**294,574,734**	**251,793,747**

Sectorial distribution of the performing loans and advances to customers

	31 December 2016		**31 December 2015**	
	Amount	**%**	**Amount**	**%**
Consumer loans	36,253,114	24.02	32,467,215	28.23
Mortgage loans	*16,675,289*	*11.05*	*14,727,324*	*13.36*
General purpose loans	*16,604,393*	*11.00*	*14,971,049*	*11.00*
Overdraft checking accounts	*2,114,961*	*1.40*	*1,909,924*	*1.36*
Auto loans	*404,897*	*0.27*	*454,911*	*0.41*
Other consumer loans	*453,574*	*0.30*	*404,007*	*2.10*
Manufacturing	16,043,231	10.63	13,077,220	9.86
Wholesale and retail trade	36,299,466	24.06	29,914,921	22.66
Transportation and telecommunication	9,854,613	6.53	7,996,444	8.99
Construction	14,364,913	9.52	10,951,872	6.92
Credit cards	5,961,563	3.95	5,227,850	4.60
Hotel, food and beverage services	4,750,381	3.15	3,019,882	1.23
Financial institutions	3,574,198	2.37	3,169,152	1.17
Agriculture and stockbreeding	1,324,040	0.88	1,461,369	0.85
Health and social services	1,646,738	1.09	1,756,548	2.20
Others	20,819,219	13.80	17,511,444	13.29
Total performing loans and advances to customers	**150,891,476**	**100.00**	**126,553,917**	**100.00**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

The classification of financial assets based on their credit risks;

31 December 2016	Neither past due nor impaired	Past due or individually impaired, net	Allowance for impairment	Total
Financial assets at fair value through profit or loss	1,789,259	-	-	1,789,259
Loans and advances to banks	130,157	-	-	130,157
Loans and advances to customers	150,891,476	7,083,466	(7,788,891)	150,186,051
Commercial	*57,597,549*	*2,140,036*	*(4,057,690)*	*55,679,895*
Consumer	*36,253,114*	*1,695,079*	*(1,855,264)*	*36,092,929*
Credit Cards	*5,961,563*	*590,513*	*(473,258)*	*6,078,818*
Other	*51,079,250*	*2,657,838*	*(1,402,679)*	*52,334,409*
Investment securities	26,926,959	-	-	26,926,959
Total	**179,737,851**	**7,083,466**	**(7,788,891)**	**179,032,426**

31 December 2015	Neither past due nor impaired	Past due or individually impaired, net	Allowance for impairment	Total
Financial assets at fair value through profit or loss	995,929	-	-	995,929
Loans and advances to banks	242,592	-	-	242,592
Loans and advances to customers	126,553,917	5,497,537	(6,195,582)	125,855,872
Commercial	*83,689,630*	*3,954,494*	*(4,078,280)*	*83,565,844*
Consumer	*32,467,215*	*1,091,392*	*(1,620,123)*	*31,938,484*
Credit Cards	*5,227,850*	*227,099*	*(256,160)*	*5,198,789*
Other	*5,169,222*	*224,552*	*(241,019)*	*5,152,755*
Investment securities	25,129,730	-	-	25,129,730
Total	**152,922,168**	**5,497,537**	**(6,195,582)**	**152,224,123**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded from 3 to 5 in the Group's internal credit risk grading system which is also in line with the regulations of BRSA.

Past due but not impaired loans

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

Loans with renegotiated terms

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

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

	31 December 2016	31 December 2015
Loans and receivables		
Commercial	2,403,516	1,348,249
Consumer	487,665	408,408
Credit Cards	94,251	20,086
Total	**2,985,432**	**1,776,743**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

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

The Bank has not adopted a policy to write-off loans.

Set out below is an analysis of the gross and net (of specific impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers		Other assets	
31 December 2016	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Grade 3 : Individually Impaired	944,596	555,336	-	-
Grade 4 : Individually Impaired	1,385,971	832,005	3,793	2,293
Grade 5 : Individually Impaired	4,752,899	38,604	155,953	18,293
Total	**7,083,466**	**1,425,945**	**159,746**	**20,586**

	Loans and advances to customers		Other assets	
31 December 2015	**Gross**	**Net**	**Gross (*)**	**Net (*)**
Grade 3 : Individually Impaired	499,637	399,667	-	-
Grade 4 : Individually Impaired	996,190	607,729	3,222	2,798
Grade 5 : Individually Impaired	4,001,710	142,490	116,032	17,138
Total	**5,497,537**	**1,149,886**	**119,254**	**19,936**

(*) Impaired insurance receivables are included in "Grade 4" and "Grade 5" in the above table.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016 and 2015.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

The breakdown of performing cash loans and advances to customers and non-cash loans (financial guarantee contracts) by type of collateral are as follows:

Cash loans	31 December 2016	31 December 2015
Secured loans:	113,893,015	94,482,518
Secured by mortgages	*43,001,264*	*38,397,870*
Secured by cash collateral	*974,445*	*850,494*
Guarantees issued by financial institutions	*357,875*	*768,672*
Secured by government institutions or government securities	*2,420,844*	*1,457,034*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*67,138,587*	*53,008,448*
Unsecured loans	36,998,461	32,071,399
Total performing loans and advances to customers	**150,891,476**	**126,553,917**

Non-cash loans (financial guarantee contracts)	31 December 2015	31 December 2015
Secured loans:	16,813,283	14,300,379
Secured by mortgages	2,105,139	2,983,906
Secured by cash collateral	126,971	243,874
Guarantees issued by financial institutions	222,219	229,287
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	14,358,954	10,843,312
Unsecured loans	23,828,865	18,819,522
Total non-cash loans	**40,642,148**	**33,119,901**

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

	31 December 2015	31 December 2015
Cash collateral(*)	-	-
Mortgages	2,698,447	1,918,201
Promissory notes(*)	-	-
Others(**)	4,385,019	567,249
Total	**7,083,466**	**2,485,450**

(*) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small / zero in the table.

(**) Sureties obtained for impaired loans are not presented in this table.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

	31 December 2016		31 December 2015	
Sectorial concentration	**Amount**	**%**	**Amount**	**%**
Consumer loans	1,471,819	20.77	1,091,392	19.85
Construction	457,610	6.46	504,908	9.18
Textile	145,427	2.05	240,088	4.37
Food	285,960	4.04	378,856	6.89
Service sector	356,035	5.03	212,468	3.86
Agriculture and stockbreeding	97,599	1.38	134,833	2.45
Metal and metal products	346,148	4.89	167,958	3.06
Durable consumer goods	225,317	3.18	88,938	1.62
Financial institutions	49,031	0.69	45,306	0.82
Others	3,648,520	51.51	2,632,790	47.90
Total non-performing loans and advances to customers	**7,083,466**	**100.00**	**5,497,537**	**100.00**

	31 December 2016		31 December 2015	
Geographical concentration	**Amount**	**%**	**Amount**	**%**
Turkey	7,005,638	98.91	5,431,196	98.79
Austria	1,648	0.02	12,013	0.22
Germany	63,083	0.89	54,328	0.99
Other	13,097	0.18	-	-
Total non-performing loans and advances to customers	**7,083,466**	**100.00**	**5,497,537**	**100.00**

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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

	Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral received	Net amount
31 December 2016							
	Derivatives - trading assets	1,607,552	-	1,607,552	-	1,607,552	-
	Reverse repurchase agreements	5,198	-	5,198	5,198	-	-
31 December 2015							
	Derivatives - trading assets	885,467	-	885,467	-	885,467	-
	Reverse repurchase agreements	3,389	-	3,389	3,389	-	-

	Types of financial liabilities	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Cash collateral given	Net amount
31 December 2016							
	Derivatives - trading liabilities	1,154,424	-	1,154,424	-	1,154,424	-
	Repurchase agreements	10,465,424	-	10,465,424	10,461,543	3,881	-
31 December 2015							
	Derivatives - trading liabilities	304,352	-	304,352	-	304,352	-
	Repurchase agreements	11,593,698	-	11,593,698	11,449,720	143,978	-

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Transferred of Financial Assets Held or Pledged as Collaterals

	31 December 2016		31 December 2015	
Asset pledged	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Balances with other banks	2,417,905	-	192,096	-
Trading securities	79,173	-	52,723	-
-Legal requirements	79,173	-	52,723	-
Investment securities	4,651,439	-	3,746,720	-
- available-for-sale	3,934,245	-	3,088,084	-
-Legal requirements	3,934,245	-	3,088,084	-
- held-to-maturity	717,194	-	658,636	-
-Legal requirements	717,194	-	658,636	-

	31 December 2016		31 December 2015	
Transferred asset that are not de-recognized	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Investment securities				
-Available for sale portfolio	5,888,624	5,353,870	6,269,330	5,875,039
-repurchase agreement	5,888,624	5,353,870	6,269,330	5,875,039
Investment securities				
-Held to maturity portfolio	5,323,556	5,111,554	6,050,350	5,718,659
-repurchase agreement	5,323,556	5,111,554	6,050,350	5,718,659
Total	**11,212,180**	**10,465,424**	**12,319,680**	**11,593,698**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee (“ALCO”). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The consolidated liquidity coverage ratio averages for current period. The highest value and the lowest value occurred in this period are given below:

Liquidity Coverage Ratio		**Current Period**	
		TL+FC	**FC**
The lowest value	December 2016	100.72	110.36
The highest value	October 2016	107.48	160.67

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

31 December 2016	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	27,929,411	814,052	847,296	-	-	-	29,590,759
Financial assets at fair value through profit or loss	10,122	52,830	89,191	456,671	1,082,591	97,854	1,789,259
Loans and advances to banks	-	1,490	39,255	89,412	-	-	130,157
Loans and advances to customers	1,211,407	12,642,712	5,841,617	30,877,093	64,571,398	35,041,824	150,186,051
Investment securities	51,752	1,363,603	342,404	1,846,497	12,855,889	10,466,814	26,926,959
Other financial assets	1,876,348	-	-	-	-	-	1,876,348
Other assets	1,430,398	1,256,662	104,274	193,626	688,658	22,708	3,696,326
Total assets	**32,509,438**	**16,131,349**	**7,264,037**	**33,463,299**	**79,198,536**	**45,629,200**	**214,195,859**
Trading liabilities	-	520,721	82,450	25,374	466,728	59,151	1,154,424
Deposits from banks	243,931	6,953,974	562,585	94,424	-	-	7,854,914
Deposits from customers	24,599,372	66,209,395	20,638,852	7,844,839	1,737,563	39,607	121,069,628
Obligations under repurchase agreements	-	8,919,327	1,031,916	-	449,439	64,742	10,465,424
Funds borrowed	-	687,885	1,261,151	11,536,863	6,754,426	6,059,105	26,299,430
Debt securities issued	-	538,113	1,709,240	3,143,948	9,291,523	-	14,682,824
Subordinated liabilities	-	-	-	-	-	5,014,700	5,014,700
Corporate tax liability	-	9,174	148,375	-	-	-	157,549
Other liabilities and provisions	3,033,178	4,718,027	216,146	152,385	2,184	3,041	8,124,961
Total liabilities	**27,876,481**	**88,556,616**	**25,650,715**	**22,797,833**	**18,701,863**	**11,240,346**	**194,823,854**
Net	**4,632,957**	**(72,425,267)**	**(18,386,678)**	**10,665,466**	**60,496,673**	**34,388,854**	**19,372,005**

31 December 2015	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	25,587,504	1,875,969	149,889	-	-	-	27,613,362
Financial assets at fair value through profit or loss	15,557	113,337	63,130	76,534	654,329	73,042	995,929
Loans and advances to banks	-	1,596	34,144	206,852	-	-	242,592
Loans and advances to customers	940,214	3,981,735	4,596,818	33,093,417	53,128,998	30,114,690	125,855,872
Investment securities	-	507,374	163,684	2,248,919	11,759,512	10,255,099	24,934,588
Other financial assets	644,859	-	-	-	-	-	644,859
Other assets	1,025,150	1,013,076	1,091	2,856	478,226	1,230,725	3,751,124
Total assets	**28,213,284**	**7,493,087**	**5,008,756**	**35,628,578**	**66,021,065**	**41,673,556**	**184,038,326**
Trading liabilities	1,090	41,536	19,427	50,518	82,757	109,024	304,352
Deposits from banks	392,993	5,711,414	555,665	151,903	-	-	6,811,975
Deposits from customers	20,241,872	58,435,273	19,510,172	7,221,631	904,252	22,252	106,335,452
Obligations under repurchase agreements	-	9,982,671	1,148,950	-	397,450	64,627	11,593,698
Funds borrowed	-	613,644	963,332	10,070,012	3,319,125	5,228,934	20,195,047
Debt securities issued	-	1,179,387	1,234,924	1,974,005	6,258,392	-	10,646,708
Subordinated liabilities	-	-	-	-	-	4,155,551	4,155,551
Corporate tax liability	-	-	231,868	1,136	-	-	233,004
Other liabilities and provisions	2,932,909	3,792,878	94,250	2,348	-	3,400	6,825,785
Total liabilities	**23,568,864**	**79,756,803**	**23,758,588**	**19,471,553**	**10,961,976**	**9,583,788**	**167,101,572**
Net	**4,644,420**	**(72,263,716)**	**(18,749,832)**	**16,157,025**	**55,059,089**	**32,089,768**	**16,936,754**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Residual contractual maturities of the financial liabilities

31 December 2016	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Trading Liabilities	1,154,424	1,154,424	-	520,721	82,450	25,374	466,728	59,151
Deposits from banks	7,854,914	7,867,379	243,931	6,960,714	567,256	95,478	-	-
Deposits from customers	121,069,628	122,011,270	24,599,372	66,376,957	20,849,354	8,055,182	2,052,190	78,215
Obligations under repurchase agreements	10,465,424	13,087,048	-	11,415,112	1,033,461	-	548,086	90,389
Funds borrowed	26,299,430	29,148,784	-	692,425	1,283,657	11,742,778	7,850,947	7,578,977
Debt securities issued	14,682,824	15,769,708	-	540,447	1,733,134	3,211,213	10,284,914	-
Subordinated liabilities	5,014,700	7,020,945	-	-	-	-	-	7,020,945
Other financial liabilities	7,968,734	7,968,734	3,192,654	4,425,567	215,677	129,615	2,184	3,037
Total	**194,510,078**	**204,028,292**	**28,035,957**	**90,931,943**	**25,764,989**	**23,259,640**	**21,205,049**	**14,830,714**
Total Loan guarantees and commitments	**80,486,372**	**80,486,372**	**43,632,642**	**1,317,799**	**23,409,999**	**6,456,303**	**4,800,854**	**868,775**

31 December 2015	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Trading Liabilities	304,352	304,352	1,090	41,536	19,427	50,518	82,758	109,023
Deposits from banks	6,811,975	6,828,695	392,993	5,718,389	562,204	155,109	-	-
Deposits from customers	106,335,452	161,085,109	20,241,872	90,367,590	33,613,372	15,857,466	979,459	25,350
Obligations under repurchase agreements	11,593,698	11,608,333	-	9,992,097	1,151,513	-	399,406	65,317
Funds borrowed	20,195,047	21,775,456	-	619,943	977,891	10,192,539	3,767,715	6,217,368
Debt securities issued	10,646,708	11,398,974	-	1,185,490	1,246,388	2,031,028	6,936,068	-
Subordinated liabilities	4,155,551	6,075,579	-	-	-	-	-	6,075,579
Other financial liabilities	6,595,541	6,637,556	2,640,232	3,595,325	125,926	268,564	4,735	2,774
Total	**166,638,324**	**225,714,054**	**23,276,187**	**111,520,370**	**37,696,721**	**28,555,224**	**12,170,141**	**12,495,411**
Total Loan guarantees and commitments	**67,967,945**	**67,967,945**	**37,518,154**	**951,139**	**19,396,626**	**5,498,569**	**4,078,818**	**524,639**

The above table shows the undiscounted cash flows of the Group’s financial liabilities on the basis of their earliest possible contractual maturity. The Group’s expected cash flows on these instruments may vary significantly from this analysis.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Exposure to market risk - trading portfolios

The market risk arising from the trading portfolio is monitored, measured and reported using Standardized Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared by using Standardized Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

31 December 2016	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash and cash equivalents	16,844,494	847,298	-	-	-	11,898,967	29,590,759
Financial assets at fair value through profit or loss	550,408	678,810	76,649	383,420	89,850	10,122	1,789,259
Loans and advances to banks	1,490	39,255	89,412	-	-	-	130,157
Loans and advances to customers	46,878,896	35,284,037	33,749,565	22,290,288	10,882,632	1,100,633	150,186,051
Investment securities	3,581,473	4,116,276	8,418,989	7,360,268	3,294,999	154,954	26,926,959
Other financial assets	-	-	-	-	-	1,876,348	1,876,348
Other assets	117,978	104,274	193,626	605,549	22,708	2,652,191	3,696,326
Total assets	**67,974,739**	**41,069,950**	**42,528,241**	**30,639,525**	**14,290,189**	**17,693,215**	**214,195,859**
Trading liabilities	520,721	129,207	28,160	420,135	56,201	-	1,154,424
Deposits from banks	6,954,097	562,584	94,424	-	-	243,809	7,854,914
Deposits from customers	66,685,715	20,843,347	8,411,150	933,656	15,737	24,180,023	121,069,628
Obligations under repurchase agreements	8,919,327	1,031,916	-	449,439	64,742	-	10,465,424
Funds borrowed	4,394,976	9,250,052	9,288,466	1,725,479	1,640,457	-	26,299,430
Debt securities issued	538,113	1,709,240	3,507,849	8,927,622	-	-	14,682,824
Subordinated liabilities	-	60,243	235,291	1,019,029	3,700,137	-	5,014,700
Corporate tax liability	-	9,174	-	-	-	148,375	157,549
Other liabilities and provisions	71,579	126,844	150,105	2,039	-	7,774,395	8,124,962
Total liabilities	**88,084,528**	**33,722,607**	**21,715,445**	**13,477,399**	**5,477,274**	**32,346,602**	**194,823,855**
Net	**(20,109,789)**	**7,347,343**	**20,812,796**	**17,162,126**	**8,812,915**	**(14,653,387)**	**19,372,004**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

31 December 2015	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and cash equivalents	18,308,913	149,889	-	-	-	9,154,560	27,613,362
Loans and advances to banks	1,596	129,191	111,805	-	-	-	242,592
Loans and advances to customers	41,661,197	26,347,280	26,694,491	19,988,968	10,355,790	808,146	125,855,872
Investment securities	3,399,197	4,271,223	8,063,560	6,568,921	2,676,236	150,593	25,129,730
Other financial assets	-	-	-	-	-	644,859	644,859
Other assets	48,474	734	2,856	26,777	1,963	2,699,293	2,780,097
Total assets	**63,419,377**	**30,898,317**	**34,872,712**	**26,584,666**	**13,033,989**	**13,457,451**	**182,266,512**
Trading liabilities	41,536	42,451	50,518	59,733	109,024	1,090	304,352
Deposits from banks	5,711,484	555,665	151,903	-	-	392,923	6,811,975
Deposits from customers	58,728,128	19,668,358	7,262,399	777,354	16,558	19,882,655	106,335,452
Obligations under repurchase agreements	9,982,671	1,148,950	-	397,450	64,627	-	11,593,698
Funds borrowed	3,683,934	7,684,616	5,500,813	929,920	2,395,764	-	20,195,047
Debt securities issued	1,179,387	1,235,096	2,244,042	5,988,183	-	-	10,646,708
Subordinated liabilities	-	49,874	194,762	843,528	3,067,387	-	4,155,551
Corporate tax liability	-	-	1,136	-	-	231,868	233,004
Other liabilities and provisions	4,174	8,558	-	-	-	6,813,056	6,825,788
Total liabilities	**79,331,314**	**30,393,568**	**15,405,573**	**8,996,168**	**5,653,360**	**27,321,592**	**167,101,575**
Net	**(15,911,937)**	**504,749**	**19,467,139**	**17,588,498**	**7,380,629**	**(13,864,141)**	**15,164,937**

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended 31 December 2016 and 2015:

31 December 2016	US Dollar %	EUR %	TL%
Cash and cash equivalents	2.32	0.56	11.51
Financial assets at fair value through profit or loss	5.89	5.50	10.91
Loans and advances to banks	5,55	0.63	9.88
Loans and advances to customers	4.99	4.24	12.34
Investment securities	4.45	2.52	9.55
Deposits from banks	1.13	0.21	9.47
Deposits from customers	2.84	1.37	9.17
Obligations under repurchase agreements	1,77	-	8.19
Debt securities issued	4.88	2.90	9.60
Subordinated liabilities	6.17	-	-
Funds borrowed	3.71	3.15	11.80

31 December 2015	US Dollar %	EUR %	TL%
Cash and cash equivalents	0.48	0.24	8.71
Financial assets at fair value through profit or loss	11.78	5.50	11.39
Loans and advances to banks	3.62	0.41	13.66
Loans and advances to customers	4.69	3.77	12.10
Investment securities	6.61	4.35	6.44
Deposits from banks	0.67	0.71	12.24
Deposits from customers	2.07	1.73	10.77
Obligations under repurchase agreements	1.08	-	8.42
Debt securities issued	4.44	2.72	10.93
Subordinated liabilities	6.31	-	-
Funds borrowed	1.87	1.07	11.83

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

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

	EUR / TL	USD / TL
31 December 2014	2.82	2.32
31 December 2015	3.16	2.91
31 December 2016	3.70	3.52

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

Measurement Frequency of Interest Rate Risk

Interest rate risk arising from banking book accounts is calculated in accordance with "Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique" published in the 23 August 2011 dated Official Gazette no. 28034. Legal limit is monthly monitored and reported accordingly.

The economic value changes arising from the interest rate fluctuations which are measured according to "Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique" are presented in the below table:

Currency Unit-Current Period	Applied Shock (+/- x base point)	Gain/ Loss	Gain/ Equity-Loss/ Equity
1. TL	500 / (400)	(2,210,943) / 2,186,994	(%9.45) / %9.34
2. EURO	200 / (200)	388,955 / 1,240	%1.66 / %0.01
3. USD	200 / (200)	603,486 / (601,248)	%2.58 / (%2.57)
Total (For Negative Shocks)	-	**1.586,986**	**6.78%**
Total (For Positive Shocks)	-	**(1,218,502)**	**(5.21%)**

Currency Unit-Prior Period	Applied Shock (+/- x base point)	Gain/ Loss	Gain/Equity-Loss/ Equity
1. TL	500 / (400)	(2,022,909) / 1,994,966	(%9.45) / %9.32
2. EURO	200 / (200)	237,097 / (30,443)	%1.11 / (%0.14)
3. USD	200 / (200)	592,183 / (522,416)	%2.76 / (%2.44)
Total (For Negative Shocks)	-	**1,442,107**	**6.74%**
Total (For Positive Shocks)	-	**(1,193,629)**	**(5.58%)**

The above table is obtained from unconsolidated 31 December 2016 audit report announced at Public Disclosure Platform.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

31 December 2016	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and cash equivalents	14,148,634	5,312,536	4,627,178	24,088,348
Financial assets at fair value through profit or loss	118,251	5,549	-	123,800
Loans and advances to banks	3,279	103,832	-	107,111
Loans and advances to customers	33,110,370	22,397,134	92,309	55,599,813
Investment securities	4,469,812	873,345	-	5,343,157
Other financial assets	1,380,133	496,200	-	1,876,333
Other assets	462,169	93,056	46	555,271
Total foreign currency denominated monetary assets	**53,692,648**	**29,281,652**	**4,719,533**	**87,693,833**
Deposits from banks	3,234,918	250,696	151,579	3,637,193
Deposits from customers	19,631,354	16,030,217	1,241,561	36,903,132
Obligations under repurchase agreements	1,775,610	18,524	-	1,794,134
Funds borrowed	15,205,677	9,370,768	2,172	24,578,617
Debt securities issued	7,609,009	3,830,141	-	11,439,150
Subordinated liabilities	5,014,700	-	-	5,014,700
Other liabilities	2,118,076	820,365	43,349	2,981,790
Total foreign currency denominated monetary liabilities	**54,589,344**	**30,320,711**	**1,438,661**	**86,348,716**
Net statement of financial position	**(896,696)**	**(1,039,059)**	**3,280,872**	**1,345,117**
Net off balance sheet position	**665,383**	**2,658,591**	**(3,282,690)**	**41,284**
Net long/(short) position	**(231,313)**	**1,619,532**	**(1,818)**	**1,386,401**

31 December 2015	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and cash equivalents	16,623,510	3,224,395	4,423,983	24,271,888
Financial assets at fair value through profit or loss	107,382	99,587	-	206,969
Loans and advances to banks	1,210	49,690	661	51,561
Loans and advances to customers	27,011,160	11,787,835	31,650	38,830,645
Investment securities	3,719,820	977,075	-	4,696,895
Other financial assets	573,654	71,206	-	644,860
Other assets	940,627	764,355	705	1,705,687
Total foreign currency denominated monetary assets	**48,977,363**	**16,974,143**	**4,456,999**	**70,408,505**
Deposits from banks	3,360,282	169,879	44,199	3,574,360
Deposits from customers	18,394,398	10,656,128	763,473	29,813,999
Obligations under repurchase agreements	3,403,437	-	-	3,403,437
Debt securities issued	5,186,409	2,206,648	12,110	7,405,167
Funds borrowed	10,782,368	8,475,276	1,076	19,258,720
Subordinated liabilities	4,155,551	-	-	4,155,551
Other liabilities	1,960,807	609,664	46,136	2,616,607
Total foreign currency denominated monetary liabilities	**47,243,252**	**22,117,595**	**866,994**	**70,227,841**
Net statement of financial position	**1,734,111**	**(5,143,452)**	**3,590,005**	**180,664**
Net off balance sheet position	**(510,289)**	**5,417,441**	**(3,577,895)**	**1,329,257**
Net long/(short) position	**1,223,822**	**273,989**	**12,110**	**1,509,921**

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2016 and 2015 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2016		31 December 2015	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	(23,131)	(23,131)	122,382	122,382
EUR	161,953	161,953	(27,399)	(27,399)
Other currencies	(182)	(182)	1,211	1,211
Total, net	**138,640**	**138,640**	**96,194**	**96,194**

10 percent revaluation of the TL against the following currencies as at and for years ended 31 December 2016 and 2015 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2016		31 December 2015	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	23,131	23,131	(122,382)	(122,382)
EUR	(161,953)	(161,953)	27,399	27,399
Other currencies	182	182	(1,211)	(1,211)
Total, net	**(138,640)**	**(138,640)**	**(96,194)**	**(96,194)**

This analysis assumes that all other variables, in particular interest rates, remain constant.

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

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

Loans and Receivables

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits from customers

The estimated fair value of deposits from other banks and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

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

	Carrying amount		**Fair value**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Financial assets				
Loans and advances to customers	150,186,051	125,855,872	150,117,354	125,564,286
Financial assets at fair value through profit or loss	1,789,259	995,929	1,789,259	995,929
Investment securities	26,926,959	25,129,730	26,739,198	24,948,077
Available-for-sale financial assets	*18,746,424*	*17,452,001*	*18,746,424*	*17,452,001*
Held-to-maturity investment securities	*8,180,535*	*7,677,729*	*7,992,774*	*7,496,076*
Financial liabilities				
Deposits from other banks	7,854,914	6,811,975	7,918,184	6,811,975
Deposits from customers	121,069,628	106,335,452	121,240,606	106,332,155
Funds borrowed	26,299,430	20,195,047	27,221,894	20,195,047

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset carried at fair value				
Financial assets at fair value through profit/loss				
Debt securities	171,611	-	-	171,611
Derivative financial assets held for trading purpose	583	1,606,969	-	1,607,552
Investment funds	8,001	-	-	8,001
Equity securities	2,095	-	-	2,095
Investment securities - available-for-sale				
Debt securities	15,924,948	2,666,522	-	18,591,470
Equity securities	-	27,593	127,361 (*)	154,954
Asset for which fair values are disclosed-				
Debt securities – held-to-maturity	6,810,858	1,041,316	140,600	7,992,774
Total financial assets	**22,918,096**	**5,342,400**	**267,961**	**28,528,457**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(1,154,424)	-	(1,154,424)
Total financial liabilities	**-**	**(1,154,424)**	**-**	**(1,154,424)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

31 December 2015	Level 1	Level 2	Level 3	Total
Asset carried at fair value				
Financial assets at fair value through profit/loss				
Debt securities	69,685	25,711	-	95,396
Derivative financial assets held for trading purpose	-	885,467	-	885,467
Investment funds	13,234	-	-	13,234
Equity securities	1,832	-	-	1,832
Investment securities - available-for-sale				
Debt securities	14,322,018	2,934,840	1,260	17,258,118
Equity securities	-	-	148,584*	148,584
Asset for which fair values are disclosed				
Debt securities - held-to-maturity	7,496,076	-	-	7,496,076
Total financial assets	**21,902,845**	**3,846,018**	**149,844**	**25,898,707**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(304,352)	-	(304,352)
Total financial liabilities	**-**	**(304,352)**	**-**	**(304,352)**

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

	31 December 2016	31 December 2015
Balance at the beginning of the year	149,844	63,372
Total gains or losses for the year recognized in profit or loss	-	-
Total gains or losses for the year recognized in other comprehensive income	118,117	86,472
Balance at the end of the year	**267,961**	**149,844**

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

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

The data of operational losses may be exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in 28 June 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at 31 December 2016, value of consolidated operational risk amounted to TL 12,245,361 (31 December 2015: TL 10,950,128).

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management - regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2016 and 2015 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

The Bank's regulatory capital position on a consolidated basis at 31 December 2016 and 2015 is as follows:

	Consolidated		**Parent**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Capital Requirement for Credit Risk (CRCR)	12,692,942	11,200,599	12,192,855	10,807,979
Capital Requirement for Market Risk (CRMR)	50,639	116,352	48,916	99,515
Capital Requirement for Operational Risk (CROR)	979,629	876,010	983,220	879,185
Common Equity Tier 1 Capital	19,301,139	16,810,344	18,964,099	16,595,144
Tier 1 Capital	19,209,033	16,689,422	18,886,553	16,492,378
Tier 2 Capital	4,712,984	5,101,213	4,634,421	5,045,078
Deductions from Capital	(113,308)	(138,811)	(113,308)	(138,811)
Total Capital	23,808,709	21,651,824	23,407,666	21,398,645
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	13.88	14.21	14.16	14.52
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	11.20	10.95	11.42	11.19
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	11.25	11.03	11.47	11.26

4. INSURANCE RISK MANAGEMENT

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

4. INSURANCE RISK MANAGEMENT (Continued)

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,
ii) Long-term relationship approach,
iii) Competitive prices
iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

5. SEGMENT REPORTING

Geographical information

The Group's activities are conducted predominantly in Turkey which is also the main operating company. The Group conducts majority of its business activities with local customers in Turkey.

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking: Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking: Includes the Group's trading and corporate finance activities.
This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Insurance: Includes the Group's insurance business.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

Others: Includes combined information about operating segments that do not meet the quantitative thresholds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

5. SEGMENT REPORTING (Continued)

Information about operating segments

31 December 2016	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	4,959,862	8,118,147	1,203,336	-	14,281,345	-	110,415	-	1,335	14,393,095	(14,766)	14,378,329
Interest expense on deposit	(3,387,868)	(3,605,822)	(254,841)	-	(7,248,531)	-	-	-	-	(7,248,531)	62,787	(7,185,744)
Operating profit	**1,714,554**	**4,003,302**	**1,705,233**	**(210,532)**	7,212,557	**1,223,253**	**44,170**	**28,165**	**113,074**	8,621,219	**(217,795)**	8,403,424
Profit before income tax	885,294	2,300,417	1,156,547	(1,044,707)	3,297,551	12,130	28,662	20,069	38,540	3,396,952	33,818	3,430,770
Income tax expense	(172,370)	(447,900)	(225,184)	203,409	(642,045)	(15,587)	(5,378)	(3,972)	(4,365)	(671,347)	-	(671,347)
Profit for the year	**712,924**	**1,852,517**	**931,363**	**(841,298)**	**2,655,506**	**(3,457)**	**23,284**	**16,097**	**34,175**	**2,725,605**	**33,818**	**2,759,423**

31 December 2016	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	41,432,801	106,143,387	56,919,048	7,824,343	212,319,579	3,059,078	1,682,665	1,407,782	1,561,784	220,030,888	(1,388,097)	218,642,791
Investments in associates and subsidiaries	-	-	1,995,448	-	1,995,448	350,821	3,869	2,688	64,061	2,416,887	(2,120,115)	296,772
Investment in equity accounted investees	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	**41,432,801**	**106,143,387**	**58,914,496**	**7,824,343**	**214,315,027**	**3,409,899**	**1,686,534**	**1,410,470**	**1,625,845**	**222,447,775**	**(3,508,212)**	**218,939,563**
Segment liabilities	54,150,626	67,269,248	63,388,027	9,170,953	193,978,854	2,754,657	1,516,433	1,288,605	505,473	200,044,022	(1,427,211)	198,616,811
Equity including non-controlling interest	-	-	-	20,336,173	20,336,173	655,242	170,101	121,865	1,120,372	22,403,753	(2,081,001)	20,322,752
Total liabilities and equity	**54,150,626**	**67,269,248**	**63,388,027**	**29,507,126**	**214,315,027**	**3,409,899**	**1,686,534**	**1,410,470**	**1,625,845**	**222,447,775**	**(3,508,212)**	**218,939,563**
Tangible fixed assets	-	-	-	240,478	240,478	-	-	-	-	240,478	-	240,478
Intangible fixed assets	-	-	-	66,628	66,628	-	-	-	-	66,628	-	66,628
Depreciation	-	-	-	(143,730)	(143,730)	-	-	-	-	(143,730)	-	(143,730)
Amortization	-	-	-	(34,394)	(34,394)	-	-	-	-	(34,394)	-	(34,394)

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

5. SEGMENT REPORTING (Continued)

31 December 2015	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Interest income on loan and receivables	4,219,050	7,387,351	-	-	11,606,401	-	102,831	-	2017	11,711,249	(12,982)	11,698,267
Interest expense on deposit	(2,558,344)	(3,424,924)	(190,507)	-	(6,173,775)	-	-	-	-	(6,173,775)	66,996	(6,106,779)
Operating profit	**1,526,256**	**4,147,363**	**457,224**	**(483,974)**	**5,646,869**	**1,184,534**	**42,714**	**24,193**	**97,748**	**6,996,058**	**(212,166)**	**6,783,892**
Profit before income tax	778,944	2,584,955	(31,562)	(1,430,945)	1,901,392	(143,853)	28,520	18,074	37,270	1,841,403	(7,725)	1,833,678
Income tax expense	(148,317)	(492,196)	6,010	272,463	(362,040)	22,967	(4,844)	(4,025)	(2,830)	(350,772)	-	(350,772)
Profit for the year	**630,627**	**2,092,759**	**(25,552)**	**(1,158,482)**	**1,539,352**	**(120,886)**	**23,676**	**14,049**	**34,440**	**1,490,631**	**(7,725)**	**1,482,906**

31 December 2015	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	36,859,220	87,069,824	51,841,800	6,973,249	182,744,093	2,667,552	1,502,346	778,226	1,201,700	188,893,917	(1,043,340)	187,850,577
Investments in associates and subsidiaries	-	-	1,769,569	-	1,769,569	301,655	3,226	2,620	56,464	2,133,534	(1,870,352)	263,182
Investment in equity accounted investees	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	**36,859,220**	**87,069,824**	**53,611,369**	**6,973,249**	**184,513,662**	**2,969,207**	**1,505,572**	**780,846**	**1,258,164**	**191,027,451**	**(2,913,692)**	**188,113,759**
Segment liabilities	47,588,682	59,301,593	52,007,978	7,841,259	166,739,512	2,487,029	1,361,930	675,117	189,200	171,452,788	(1,081,696)	170,371,092
Equity including non-controlling interest	-	-	-	17,774,151	17,774,151	482,178	143,642	105,729	1,068,964	19,574,664	(1,831,997)	17,742,667
Total liabilities and equity	**47,588,682**	**59,301,593**	**52,007,978**	**25,615,410**	**184,513,663**	**2,969,207**	**1,505,572**	**780,846**	**1,258,164**	**191,027,452**	**(2,913,693)**	**188,113,759**
Tangible fixed assets	-	-	-	(209,841)	(209,841)	-	-	-	-	(209,841)	-	(209,841)
Intangible fixed assets	-	-	-	197,793	197,793	-	-	-	-	197,793	-	197,793
Depreciation	-	-	-	(209,190)	(209,190)	-	-	-	-	(209,190)	-	(209,190)
Amortization	-	-	-	30,269	30,269	-	-	-	-	30,269	-	30,269

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

6. CASH AND CASH EQUIVALENTS

As at 31 December 2016 and 2015, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

	31 December 2016	31 December 2015
Cash on hand	1,790,042	1,440,011
Due from Central Bank	15,007,818	18,441,151
Balances with the CBRT excluding reserve deposits	7,317,691	1,393,197
Receivables from repurchase agreements	5,198	6,699
Loans and advances to banks with original maturity less than three months	5,215,487	6,115,662
Others	254,523	216,642
Total cash and cash equivalents in the consolidated statement of financial position	**29,590,759**	**27,613,362**
Accruals on cash and cash equivalents	(2,495)	(24,559)
Blocked bank deposits	(2,416,462)	(192,096)
Total cash and cash equivalents in the consolidated statement of cash flows	**27,171,802**	**27,396,707**

As at 31 December 2016, TL 1,807,942 (31 December 2015: None) of TL 2,416,462 blocked bank deposits (31 December 2015: TL 192,096) comprises the additional reserve requirements of Central Bank of Turkey ("CBT"). Remaining TL 608,520 blocked bank deposits consists of TL 507,257 held against the "Diversified Payment Rights" securitizations and TL 101,263 held against insurance liabilities of the Group in favour of the Turkish Treasury.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2016 and 2015, financial assets at fair value through profit or loss are as follows:

	31 December 2016		31 December 2015	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Debt instruments held at fair value:				
Government bonds in TL	200	206	300	311
Asset-backed securities	15,938	15,947	-	-
Eurobonds issued by the Turkish Government	8,524	10,647	7,199	9,566
Corporate bonds in TL	116,479	113,912	82,924	82,245
Bonds issued by banks	31,500	30,899	3,350	3,274
	172,641	**171,611**	**93,773**	**95,396**
Equity and other non-fixed income instruments:				
Derivative financial instruments held for trading purposes	-	1,607,552	-	885,467
Investment funds	-	8,001	-	13,234
Equity shares	-	2,095	-	1,832
	-	**1,617,648**	**-**	**900,533**
Total financial assets at fair value through profit or loss	**172,641**	**1,789,259**	**93,773**	**995,929**

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended 31 December 2016, net income from trading of financial assets (including investment securities) amounting to TL 378,849 (31 December 2015: TL 26,998) is included in "trading income".

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Devamı)

The following table summarizes securities that were deposited as collateral with respect to various banking transactions:

	31 December 2016		31 December 2015	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	8,524	10,647	2,347	9,566
Deposited at Istanbul Stock Exchange for repurchase transactions	-	-	-	-
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	70,630	68,526	44,490	43,157
	79,154	**79,173**	**46,837**	**52,723**

Derivative financial instruments held for trading purposes

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

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates. The maturity analyses of the gross nominal value of derivatives are presented below:

	31 December 2016	31 December 2015
	Notional Amounts	**Notional Amounts**
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**39,674,975**	**28,241,368**
Currency Forwards	1,615,985	468,760
Currency Swaps	37,185,682	27,259,078
Currency Futures	-	-
Currency Options	873,308	513,530
Interest Rate Derivative Transactions	**17,066,824**	**13,313,758**
Interest Rate Forwards	-	-
Interest Rate Swaps	17,066,824	13,313,758
Interest Rate Options	-	-
Investment Security Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	**11,037,611**	**8,954,555**
Total Derivative Transactions	**67,779,410**	**50,509,681**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	31 December 2016					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	8,131,383	4,142,976	59,393	333,432	-	12,667,184
Sales	5,967,447	3,320,505	57,412	406,566	-	9,751,930
Currency forwards:						
Purchases	91,264	240,192	436,920	39,781	-	808,157
Sales	91,595	240,137	436,440	39,656	-	807,828
Cross currency interest rate swaps:						
Purchases	-	-	826,025	7,055,829	-	7,881,854
Sales	-	-	434,479	6,450,235	-	6,884,714
Interest rate swaps:						
Purchases	-	-	1,231,927	3,384,843	3,916,642	8,533,412
Sales	-	-	1,231,927	3,384,842	3,916,643	8,533,412
Currency options:						
Purchases	407,926	20,002	-	-	-	427,928
Sales	424,764	20,616	-	-	-	445,380
Other:						
Purchases	70,300	210,900	246,049	1,922,502	1,883,038	4,332,789
Sales	2,700,249	1,037,023	215,525	1,521,775	1,230,250	6,704,822
Total of purchases	**8,700,873**	**4,614,070**	**2,800,314**	**12,736,387**	**5,799,680**	**34,651,324**
Total of sales	**9,184,055**	**4,618,281**	**2,375,783**	**11,803,074**	**5,146,893**	**33,128,086**
Total of derivatives	**17,884,928**	**9,232,351**	**5,176,097**	**24,539,461**	**10,946,573**	**67,779,410**

	31 December 2015					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	10,038,294	3,520,445	242,757	-	-	13,801,496
Sales	4,394,944	3,535,470	251,525	-	-	8,181,939
Currency forwards:						
Purchases	21,330	60,137	107,684	45,556	-	234,707
Sales	21,304	60,054	107,359	45,336	-	234,053
Cross currency interest rate swaps:						
Purchases	-	-	186,709	2,732,075	-	2,918,784
Sales	-	-	120,583	2,236,276	-	2,356,859
Interest rate swaps:						
Purchases	-	-	218,250	2,763,121	3,675,508	6,656,879
Sales	-	-	218,250	2,763,121	3,675,508	6,656,879
Currency options:						
Purchases	229,308	13,086	8,586	-	-	250,980
Sales	239,124	13,526	9,900	-	-	262,550
Other:						
Purchases	-	-	625,650	-	1,247,145	1,872,795
Sales	5,597,158	-	611,602	-	873,000	7,081,760
Total of purchases	**10,288,932**	**3,593,668**	**1,389,636**	**5,540,752**	**4,922,653**	**25,735,641**
Total of sales	**10,252,530**	**3,609,050**	**1,319,219**	**5,044,733**	**4,548,508**	**24,774,040**
Total of derivatives	**20,541,462**	**7,202,718**	**2,708,855**	**10,585,485**	**9,471,161**	**50,509,681**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Set out below accruals of derivative instruments:

	Asset		**Liability**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Forwards	22,879	2,711	22,600	2,102
Swaps	1,584,238	882,413	1,093,338	273,399
Options	435	343	38,486	28,851
Fair value of derivatives	**1,607,552**	**885,467**	**1,154,424**	**304,352**

8. REPURCHASE AGREEMENTS

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

	31 December 2016		**31 December 2015**	
	Fair value of underlying assets	**Carrying Value of corresponding assets**	**Fair value of underlying assets**	**Carrying Value of corresponding assets**
Reverse repurchase agreements	5,198	5,198	3,389	3,389

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The counterparties cannot resell or re-pledged the assets. Assets sold under repurchase agreements comprise the following:

	31 December 2016		**31 December 2015**	
	Fair value of underlying assets	**Carrying value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying value of corresponding liabilities**
Investment securities- Available for sale portfolio	5,888,624	5,353,870	6,269,330	5,875,039
Investment securities- Held to maturity portfolio	4,680,338	5,111,554	6,050,350	5,718,659
Total	**10,568,962**	**10,465,424**	**12,319,680**	**11,593,698**

Accrued interest on obligations under repurchase agreements amounted to TL 16,171 (31 December 2015: TL 26,788) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

9. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 31 December 2016 and 2015:

	31 December 2016			**31 December 2015**		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Domestic banks	22,306	66,499	88,805	61,159	2,774	63,933
Foreign banks	740	40,612	41,352	-	178,659	178,659
Total	**23,046**	**107,111**	**130,157**	**61,159**	**181,433**	**242,592**

As at 31 December 2016, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL nil (31 December 2015: Nil) held against the insurance liabilities of the Group in favor of the Turkish Treasury.

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

10. LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2016 and 31 December 2015, outstanding loans and advances to customers comprise the followings:

	31 December 2016	31 December 2015
Corporate loans	102,027,205	83,689,630
Neither past due nor impaired	*97,265,251*	*81,567,218*
Past due but not impaired	*4,761,954*	*2,122,412*
Consumer loans	36,253,114	32,467,215
Neither past due nor impaired	*34,831,425*	*30,211,045*
Past due but not impaired	*1,421,689*	*2,256,170*
Credit cards	5,961,563	5,227,850
Neither past due nor impaired	*5,576,319*	*4,852,205*
Past due but not impaired	*385,244*	*375,645*
Loans to Financial Institutions	3,712,471	3,156,965
Neither past due nor impaired	*3,707,596*	*3,156,945*
Past due but not impaired	*4,875*	*20*
Finance lease receivables, net of unearned income	1,546,409	1,325,825
Neither past due nor impaired	*1,534,990*	*1,319,008*
Past due but not impaired	*11,419*	*6,817*
Factoring receivables	1,390,714	686,432
Total performing loans	**150,891,476**	**126,553,917**
Non-performing loans	7,083,466	5,497,537
Total gross loans	**157,974,942**	**132,051,454**
Allowance for incurred loan losses from loans and advances to customers	(7,788,891)	(6,195,582)
Specific impairment	*(5,657,521)*	*(4,347,651)*
Collective impairment	*(2,131,370)*	*(1,847,931)*
Loans and advances to customers, net	**150,186,051**	**125,855,872**

The specific allowance for incurred losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances.

Movements in the allowance for incurred loan losses are as follows:

	31 December 2016	31 December 2015
Reserve at the beginning of the year	6,195,582	4,838,962
Adjustment for currency translation	155	5,094
Reserve for incurred loan losses provided during the year	2,259,887	2,076,173
Recoveries	(666,733)	(723,113)
Provision, net of recoveries	7,788,891	6,197,116
Loans written off during the year	-	(1,534)
Reserve at the end of the year	**7,788,891**	**6,195,582**

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

31 December 2016	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Corporate	1,612,213	933,910	712,469	3,258,592
Consumer	534,798	626,689	225,613	1,387,100
Credit cards	237,386	179,888	38,431	455,705
Total	**2,384,396**	**1,740,488**	**976,513**	**5,101,397**

31 December 2015	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Corporate	1,155,207	514,834	459,188	2,129,229
Consumer	1,532,540	479,262	244,368	2,256,170
Credit cards	273,371	67,918	34,356	375,645
Total	**2,961,118**	**1,062,014**	**737,912**	**4,761,044**

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

11. FINANCE LEASE RECEIVABLES

The finance leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following finance lease receivables:

	31 December 2016	31 December 2015
Finance lease receivables, net of unearned finance income	1,546,409	1,325,825
Add: non-performing lease receivables	182,796	164,565
Total finance lease receivables	1,729,205	1,490,390
Less: allowance for incurred losses on lease receivables	(117,002)	(98,172)
Finance lease receivables, net	**1,612,203**	**1,392,218**

	31 December 2016	31 December 2015
Due within one year	50,656	110,233
Due between 1 and 5 years	1,016,439	1,144,965
More than five years	721,586	280,873
Finance lease receivables, gross	1,788,681	1,536,071
Unearned finance income	(242,272)	(210,246)
Finance lease receivables, net	**1,546,409**	**1,325,825**
Due within one year	50,489	106,123
Due between 1 and 5 years	882,343	992,617
More than five years	613,577	227,085
Finance lease receivables, net	**1,546,409**	**1,325,825**

12. INVESTMENT SECURITIES

As at 31 December 2016 and 2015, investment securities comprise the following:

	31 December 2016	31 December 2015
Available-for-sale financial assets	18,746,424	17,452,001
Held-to-maturity investment securities	8,180,535	7,677,729
Total investment securities	**26,926,959**	**25,129,730**

Available-for-sale financial assets:

	31 December 2016		31 December 2015	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in TL	11,663,808	12,588,912	11,438,075	12,100,331
Eurobonds issued by the Turkish Government	4,894,360	5,218,371	4,143,074	4,610,290
Bonds issued by banks	234,514	222,692	110,552	113,602
Government bonds in foreign currencies	456,313	501,130	389,704	418,701
Treasury bills in TL	-	-	-	-
Corporate bonds	59,277	60,368	14,497	13,935
	17,457,761	**18,591,473**	**16,095,902**	**17,256,859**
Equity and other non-fixed income instruments:	-	-		
Equity shares	-	154,951	-	195,142
		154,951	**-**	**195,142**
Total available-for-sale financial assets	**-**	**18,746,424**	**-**	**17,452,001**

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

12. INVESTMENT SECURITIES (Devamı)

As at 31 December 2016 and 2015, equity shares comprised the following:

	31 December 2016	**31 December 2015**
Unquoted investments:		
Güney Ege Enerji Ltd. Şti.	209,756	209,738
Vakıf Pazarlama Sanayi ve Ticaret A.Ş.	101,092	103,941
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	33,954	33,954
Takas ve Saklama Bankası A.Ş.	30,319	30,320
Vakıf Gayrimenkul Değerleme A.Ş.	19,474	21,073
Vakıf İnşaat Restorasyon A.Ş.	10,841	10,838
Roketsan Roket Sanayi ve Ticaret A.Ş.	7,594	7,594
İzmir Enternasyonel A.Ş.	6,178	6,178
Visa Inc.	27,595	79,238
Borsa İstanbul	12,022	15
Others	10,832	13,956
Impairment	(314,706)	(321,703)
Total	**154,951**	**195,142**

The following table summarizes available-for-sale financial assets that were deposited as collaterals with respect to various banking transactions:

	31 December 2016		**31 December 2015**	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at financial institutions for repurchase transactions	6,089,488	6,594,055	6,186,603	6,449,213
Deposited at other institutions for repurchase transactions	7,283	7,749	4,990,283	5,427,279
Others	3,026,979	3,212,127	1,633,771	1,750,956
Total	**9,123,750**	**9,813,931**	**12,810,657**	**13,627,448**

Held-to-maturity investment securities:

	31 December 2016			**31 December 2015**		
	Face Value	**Carrying Value**	**Fair Value**	**Face Value**	**Carrying Value**	**Fair Value**
Debt instruments:						
Government bonds in TL	6,876,610	8,039,914	7,852,174	6,706,610	7,546,748	7,365,126
Certificate of deposits	140,600	140,621	140,600	130,950	130,981	130,950
Eurobonds issued by the Turkish Government	-	-	-	-	-	-
Total held-to-maturity investment securities	**7,017,210**	**8,180,535**	**7,992,774**	**6,837,560**	**7,677,729**	**7,496,076**

Movements of available for sale and held to maturity investment securities are as follows:

	31 December 2016			**31 December 2015**		
	Available-for-sale	**Held-to-maturity**	**Total**	**Available-for-sale**	**Held-to-maturity**	**Total**
At 1 January	17,452,001	7,677,729	25,129,730	16,975,815	6,854,593	23,830,408
Exchange differences	3,322	7,371	10,693	926,411	44,702	971,113
Additions	6,636,865	1,873,688	8,510,553	7,723,001	1,610,704	9,333,705
Disposals (sale and redemption)	(5,466,684)	(1,673,758)	(7,140,442)	(7,765,404)	(1,129,187)	(8,894,591)
Changes in amortized cost and fair value	120,920	295,505	416,425	(407,822)	296,917	(110,905)
Total	**18,746,424**	**8,180,535**	**26,926,959**	**17,452,001**	**7,677,729**	**25,129,730**

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

12. INVESTMENT SECURITIES (Continued)

The following table summarizes held-to-maturity investment securities that were deposited as collaterals with respect to various banking transactions:

	31 December 2016		31 December 2015	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at financial and other institutions for repurchase transactions	190,000	190,533	1,441,050	1,528,488
Deposited at Central Bank of Turkey for repurchase transactions	-	-	3,832,878	4,521,861
Deposited at Central Bank of Turkey for interbank transactions	294,050	318,138	152,385	171,969
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	4,624,598	5,323,555	290,000	318,492
Others	198,600	208,524	162,605	163,431
Total	**5,307,248**	**6,040,750**	**5,878,918**	**6,704,241**

13. INVESTMENT IN EQUITY-ACCOUNTED INVESTEES

As at 31 December 2016 and 2015 investments in equity participations accounted for using the equity method are as follows:

	31 December 2016	**31 December 2015**
Unquoted investments:		
Kıbrıs Vakıflar Bankası Ltd.	12,456	12,337
T. Sınai Kalkınma Bankası A.Ş.	284,316	250,845
Total	**296,772**	**263,182**

14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property and equipment and intangible assets from 1 January to 31 December 2016 and 1 January to 31 December 2015 are as follows:

Property and equipment	**1 January 2016**	**Currency translation difference**	**Valuation difference**	**Additions**	**Disposals**	**31 December 2016**
Cost:						
Land and buildings	1,417,221	-	13,955	57,254	(71,655)	1,416,775
Motor vehicles	37,689	(20)	-	3,042	(10,656)	30,055
Furniture, office equipment and leasehold improvements	788,276	-	-	178,854	(8,425)	958,705
Other tangibles	425,351	4,162	-	1,328	(12,888)	417,953
	2,668,537	**4,142**	**13,955**	**240,478**	**(103,624)**	**2,823,488**
Accumulated depreciation:						
Land and buildings	88,073	-	19	11,296	(2,425)	96,963
Motor vehicles	32,995	-	-	2,148	(10,162)	24,981
Furniture, office equipment and leasehold improvements	539,892	-	-	128,216	(7,094)	661,014
Other tangibles	230,207	-	-	2,070	(10,235)	222,042
	891,167	**-**	**19**	**143,730**	**(29,916)**	**1,005,000**
Net book value	**1,777,370**	**4,142**	**13,936**	**96,748**	**(73,708)**	**1,818,488**

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

14. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Intangible assets	1 January 2016	Currency translation difference	Additions	Disposals	31 December 2016
Cost:					
Software programs	365,527	-	54,560	(8,038)	412,049
Rights	49,235	-	12,068	(310)	60,993
Other intangible assets	-	-	-	-	-
	414,762	**-**	**66,628**	**(8,348)**	**473,042**
Accumulated amortization:					
Software programs	65,951	-	28,755	-	94,706
Rights	18,947	-	5,639	(4)	24,582
Other intangible assets	-	-	-	-	-
	84,898	**-**	**34,394**	**(4)**	**119,288**
Net book value	**329,864**	**-**	**32,234**	**(8,344)**	**353,754**

Property and equipment	1 January 2015	Currency translation difference	Valuation difference	Additions	Disposals	31 December 2015
Cost:						
Land and buildings	957,892	-	788,532	244,194	(573,397)	1,417,221
Motor vehicles	46,956	-	-	1,772	(11,039)	37,689
Furniture, office equipment and leasehold improvements	636,463	-	-	187,136	(35,323)	788,276
Other tangibles	453,405	-	-	69,850	(97,904)	425,351
	2,094,716	**-**	**788,532**	**502,952**	**(717,663)**	**2,668,537**
Accumulated depreciation:						
Land and buildings	311,938	-	-	14,720	(238,585)	88,073
Motor vehicles	35,700	-	-	4,560	(7,265)	32,995
Furniture, office equipment and leasehold improvements	502,100	40	-	58,109	(20,357)	539,892
Other tangibles	258,056	(2,606)	-	49,287	(74,530)	230,207
	1,107,794	**(2,566)**	**-**	**126,676**	**(340,737)**	**891,167**
Net book value	**986,922**					**1,777,370**

Intangible assets	1 January 2015	Currency translation difference	Additions	Disposals	31 December 2015
Cost:					
Software programs	174,712	-	191,044	(229)	365,527
Rights	47,912	-	1,323	-	49,235
Other intangible assets	-	-	-	-	-
	222,624	**-**	**192,367**	**(229)**	**414,762**
Accumulated amortization:					
Software programs	37,288	-	28,692	(29)	65,951
Rights	17,342	-	1,605	-	18,947
Other intangible assets	-	-	-	-	-
	54,630	**-**	**30,297**	**(29)**	**84,898**
Net book value	**167,994**				**329,864**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

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

15. OTHER ASSETS

	31 December 2016	31 December 2015
Assets held for resale	1,287,233	1,049,459
Receivables from insurance activities	990,724	995,337
Receivables from credit card payments	988,257	964,563
Prepaid expenses	655,049	603,602
Investment properties	354,385	287,726
Deferred acquisition costs for insurance contracts, gross	120,907	122,171
Exchange operations receivables	-	74,956
Receivables from term sales of fixed assets	21,746	44,567
Receivables from reinsurance activities	27,240	23,304
Prepaid taxes other than income tax and funds to be refunded	-	11,254
Receivables from private pension system	8,766	5,580
Other	924,564	600,950
Total non-financial other asset	**5,378,871**	**4,783,469**
Collaterals for derivative financial instruments	1,872,467	500,881
Guarantees given for repurchase agreements	3,881	143,978
Total financial other asset	**1,876,348**	**644,859**

As at 31 December 2016, reserve deposits at the CBRT were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBRT.

In accordance with “Announcement on Reserve Deposits” of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 4% to 10.5% (31 December 2015: ranging from 5% to 11.5%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 4.5% to 24.5% in US Dollar or Euro (31 December 2015: ranging from 5% to 25%).

As at 31 December 2016, TL 1,287,233 (31 December 2015: TL 1,049,459) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the years ended 31 December 2016 and 2015, movement of deferred acquisition cost is as follows:

	31 December 2016	31 December 2015
Deferred acquisition cost at the beginning of the year	122,171	110,321
Addition	235,321	236,418
Transfer to profit/loss	(236,585)	(224,568)
Deferred acquisition cost at the end of the year	**120,907**	**122,171**

16. TRADING LIABILITIES

As at 31 December 2016 and 2015, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	31 December 2016	31 December 2015
Forwards	22,600	2,102
Swaps	1,093,338	273,399
Options	38,486	28,851
Total trading liabilities	**1,154,424**	**304,352**

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

17. DEPOSITS FROM BANKS

As at 31 December 2016 and 2015, deposits from banks comprise the following:

	31 December 2016	31 December 2015
Demand deposits	243,931	392,993
Time deposits	7,610,983	6,418,982
Total deposits from banks	**7,854,914**	**6,811,975**

18. DEPOSITS FROM CUSTOMERS

As at 31 December 2016 and 2015, deposits from customers comprise the following:

	31 December 2016		31 December 2015	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	5,705,688	29,191,909	4,424,092	23,920,505
Foreign currency deposits	5,459,345	30,368,620	4,478,957	27,274,506
Residents in Turkey	4,810,564	24,097,979	3,846,972	21,719,298
Residents abroad	648,781	6,270,641	631,985	5,555,208
Commercial deposits	2,895,829	14,962,664	2,457,484	14,890,631
Public sector deposits	5,358,931	15,657,822	4,504,470	14,755,810
Others	5,179,579	6,289,241	4,376,869	5,252,128
Total deposits from customers	**24,599,372**	**96,470,256**	**20,241,872**	**86,093,580**

19. FUNDS BORROWED

As at 31 December 2016 and 2015, funds borrowed comprise the followings in accordance with their original maturities:

	31 December 2016		31 December 2015	
	TL	Foreign Currency	TL	Foreign Currency
Short-term funds	*716,048*	*2,338,208*	*510,306*	*2,020,325*
Short-term portion of long term funds	*172,281*	*10,199,485*	*114,523*	*9,001,196*
Total short-term funds	888,329	12,537,693	624,829	11,021,521
Medium/long term funds	832,484	12,040,924	311,497	8,237,200
Total funds borrowed	**1,720,813**	**24,578,617**	**936,326**	**19,258,721**

On 17 April 2015, the Parent Bank has obtained syndicated loan amounting to US Dollar 204 million and Euro 763 million with interest rates of US Libor + 0.80% and Euribor + 0.80% at a maturity of 367 days, with the participation of 35 banks, Wells Fargo Bank N.A., London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and agent bank. On 20 April 2016, the loan has been renewed with a new syndicated loan amounting to US Dollar 207 million and Euro 631.5 million with the interest rate of US Libor + 0.85% and Euribor + 0.75% at a maturity of 367 days with participation of 30 banks, Wells Fargo Bank, London Branch acting as coordinator and agent bank.

On 22 September 2014, the Parent Bank has obtained syndicated loan amounting to US Dollar 168.5 million and Euro 528.75 million with interest rates of US Libor + 0.90% and Euribor + 0.90% at a maturity of one year, with the participation of 26 banks, ING Bank, London Branch acting as coordinator and agent bank. On 14 September 2015, the loan has been renewed with a new syndicated loan amounting to US Dollar 168.5 million and Euro 679.5 million with the interest rate of US Libor + 0.75% and Euribor + 0.75% at a maturity of one year with participation of 30 banks, ING Bank, London Branch acting as coordinator and agent bank. On 26 September 2016, the loan has been renewed with a new syndicated loan amounting to 224.5 million US Dollar and 544 million Euros with the interest rate of US Libor + 1.10% and Euribor + 1.00% at a maturity of 367 days with participation of 22 banks, ING Bank, London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and ING Bank, London Branch acting as agent bank.

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

19. FUNDS BORROWED (Continued)

On 19 December 2014, the Parent Bank has obtained securitization loan at the amount of US Dollar 928.6 million related to foreign transfers and treasury transactions in Euro and US Dollar. Loan amounting to US Dollar 500 million has been obtained related to foreign transfers at a maturity of five years and loan at the amount of US Dollar 428.6 million has been obtained related to treasury transactions at a maturity of seven years in seven different segments in total.

The loan obtained from European Bank for Reconstruction and Development (EBRD) amounting to US Dollar 125 million in 2014-A segment in order to finance medium term loans including to meet the needs of agricultural enterprises and support woman entrepreneurs.2014-B segment of the loan has been obtained from Wells Fargo Bank, N.A., 2014-C segment of the loan has been obtained from Raiffeisen Bank International AG, 2014-D segment of the loan has been obtained from Standard Chartered Bank, 2014-E segment of the loan has been obtained from Societe Generale, 2014-G segment of the loan has been obtained from Bank of America, N.A. and 2014-F segment of the loan related to treasury transactions has been obtained from JP Morgan Securities plc. in the scope of programme.

On 4 October 2016, the Bank carried out a securitization transaction in the amount of US Dollar 890 million equivalent in Euros and US Dollar based on foreign money transfers and treasury transactions as part of the securitization program. A total of US Dollar 310 million was provided for 5 years and US Dollar 535 million based on treasury financing transactions was provided with 7 years maturity, based on foreign delegations of the loan provided in seven separate segments. Within the program, 2016-A segment was collected from SMBC, 2016-B segment from Wells Fargo Bank, 2016-C segment from Credit Suisse, 2016-D segment from Standard Chartered Bank, 2016-E segment from EBRD, 2016-F segment from JP Morgan and 2016-G segment from ING Bank. EBRD participated in the securitization loan with the TurSEFF II and TurSEFF III projects. As of December 31, 2016, the sum of the securitization loans amounted to US Dollar 1.544 million and EUR 335 million.

20. DEBT SECURITIES ISSUED

	31 December 2016		31 December 2015	
	TL	**FC**	**TL**	**FC**
Nominal	3,437,915	11,210,833	3,332,669	7,334,807
Cost	3,315,225	11,130,411	3,198,134	7,288,382
Net Book Value	3,373,519	11,309,305	3,257,620	7,389,088

31 December 2016	**Currency**	**Maturity**	**Interest Rate**	**Original Amount**	**TL Amount**
Bank Bonds	TL	January 2017 - June 2017	8.60 % - 10.65%	3,373,519	3,373,519
Bank Bonds	USD	January 2017 - October 2021	0.46 % - 2.59%	2,153,762	7,568,394
Bank Bonds	EUR	February 2017 - May 2021	1.04 % - 3.50 %	1,009,747	3,740,911

31 December 2015	**Currency**	**Maturity**	**Interest Rate**	**Original Amount**	**TL Amount**
Bank Bonds	TL	January 2016 - July 2016	10.10 % -11.38 %	3,257,620	3,257,620
Bank Bonds	USD	January 2016 - June 2019	0.36 % - 1.77 %	5,412,271	5,412,271
Bank Bonds	EUR	January 2016 - October 2018	0.02 % - 3.50 %	1,976,817	1,976,817

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

21. SUBORDINATED LIABILITIES

The Bank has issued bond having the secondary subordinated debt quality to be sold non-resident natural and legal persons. The bond has been issued at the nominal value of USD 500 million, with maturity of 10 years and 6.0% coupon rate. In addition to the issuance of the bond having the secondary subordinated debt realized on 1 November 2012, the Bank, has realized second trance in issuance of the bond having the secondary subordinated debt quality to be sold in foreign bond markets. The bond has been issued at nominal value of USD 400 million, has the same maturity with previous bond and 5.5% coupon rate.

The Bank has issued secondary subordinated loan (Tier II bond) as at January 2015 which contains Basel-III criteria. In this context, the bond has been issued at the nominal value of US Dollar 500 million with the maturity date of 3 February 2025 and early call option date of 3 February 2020. The bond has fixed interest, 10 years and one day maturity, two times interest payment in a year with coupon rate of 6.875% and issue yield of 6.95%.

The Bank has obtained written permission of the BRSA for accounting these bonds as secondary subordinated debt and accordingly considering in the calculation of supplementary capital in compliance with the “Regulation on Capitals of the Banks” published on “ November 2006 dated and 26333 numbered Official Gazette.

As at 31 December 2016, carrying value of subordinated liabilities amount to TL 5,014,700 (31 December 2015: TL 4,155,551).

22. OTHER LIABILITIES AND PROVISIONS

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

	31 December 2016	**31 December 2015**
Accounts against expenditures of credit card holders	4,010,273	3,197,542
Import letter of credit	1,526,715	1,340,949
Reserve for outstanding claims for insurance contracts	1,231,662	1,108,017
Reserve for unearned insurance premiums	792,024	715,692
Margin deposit for derivative financial instruments	740,417	585,792
Provision for employee termination benefits	399,248	372,537
Clearing account	356,895	333,251
Miscellaneous payables	690,490	326,879
Unearned income	471,756	309,380
Taxes payable other than income tax	276,081	282,988
Reserve for short term employee benefits	252,086	244,536
Payables due to insurance activities	21,497	181,543
Mathematical provisions	174,963	153,279
Investment contract liabilities	98,199	112,481
Blocked accounts	105,165	90,476
Provision for unused vacations	91,322	89,639
Deferred commission income for insurance contracts	55,595	54,545
Cheques response	66,959	47,020
Provision for non-cash loans	59,816	40,930
Other provisions	70,255	36,744
Payment orders	12,805	19,632
Payables to suppliers relating to finance lease activities	-	5
Other liabilities	394,164	431,874
Total other liabilities and provisions	**11,898,387**	**10,075,731**

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

22. OTHER LIABILITIES AND PROVISIONS (Continued)

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	**31 December 2016**	**31 December 2015**
Reserve for unearned insurance premiums, net	450,622	413,610
Reserve for unearned insurance premiums, reinsurer share	341,402	302,082
Reserve for unearned insurance premiums, gross	**792,024**	**715,692**

Reserve for unearned insurance premiums (net)	**31 December 2016**	**31 December 2015**
At the beginning of the year	413,610	357,700
Premiums written during the year *(Note 28)*	968,799	823,958
Premiums earned during the year *(Note 28)*	(931,787)	(768,048)
At the end of the year	**450,622**	**413,610**

Provision for outstanding claims	**31 December 2016**	**31 December 2015**
Provision for outstanding claims, net	671,858	576,839
Provision for outstanding claims, reinsurer share	559,804	531,178
Provision for outstanding claims, gross	**1,231,662**	**1,108,017**

Provision for outstanding claims (net)	**31 December 2016**	**31 December 2015**
At the beginning of the year	576,839	394,506
Cash paid for claims settled during the year	(162,870)	(124,684)
Increase during the year	257,890	307,017
At the end of the year	**671,859**	**576,839**

Long term insurance contracts	**31 December 2016**	**31 December 2015**
At the beginning of the year	265,760	284,433
Entrance during the year	68,180	35,790
Withdrawals during the year	(60,778)	(54,463)
Change in fair value of investments held for investment contracts	-	-
At the end of the year	**273,162**	**265,760**
Long term insurance contracts	*174,963*	*153,279*
Investment contract liabilities	*98,199*	*112,481*

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

Reserve for employee severance indemnity	**31 December 2016**	**31 December 2015**
At the beginning of the year	372,537	347,710
Currency translation difference	317	48
Interest cost	35,162	27,651
Service cost	43,062	34,270
Payment during the year	(49,723)	(35,585)
Actuarial re-measurement	(2,107)	(1,557)
At the end of the year	**399,248**	**372,537**

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

23. TAXATION

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

	31 December 2016	31 December 2015
Income tax recognized in profit or loss for the year		
Current income tax related to income from operations	(741,548)	(404,015)
Deferred income tax related to income from operations	70,201	53,243
	(671,347)	**(350,772)**
Income tax recognized in other comprehensive income		
Current income tax recognized in other comprehensive income	(6,173)	(14,495)
Deferred income tax recognized in other comprehensive income	53,010	85,751
	46,837	**71,256**
Income tax expense recognized in the consolidated profit or loss and other comprehensive income	**(624,510)**	**(279,516)**

The movement of corporate tax liability is as follows:

	31 December 2016	31 December 2015
At the beginning of the year	233,004	249,940
Current income tax charge	741,548	404,015
Current income tax recognized under equity	6,173	14,495
Taxes paid during the year	(823,176)	(435,446)
Corporate tax liability	**157,549**	**233,004**

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended 31 December 2016 and 2015 is as follows:

	31 December 2016	Tax rate (%)	31 December 2015	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**3,430,770**		**1,833,678**	
Taxes on income per statutory tax rate	(687,526)	(20.04)	(367,754)	(20.06)
Income not subject to tax	3,198	0.09	7,799	0.43
Investment incentives	943	0.03	-	-
Disallowable expenses	2,248	0.07	4,389	0.24
Others, net	9,790	0.29	4,794	0.26
Income tax expense	**(671,347)**	**(19.57)**	**(350,772)**	**(19.13)**

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

23. TAXATION (Continued)

Deferred tax assets and liabilities at 31 December 2016 and 2015 are attributable to the items below:

	31 December 2016	31 December 2015
Other provisions	508,871	438,882
Valuation differences of financial assets and liabilities	117,885	117,244
Provision for employee severance indemnity and unused vacations	98,114	92,435
Valuation difference of associates and subsidiaries	27,035	27,427
Tax losses carried forward	26,874	21,609
Investment incentive	4,314	9,697
Reporting standards-tax code depreciation differences	6,330	7,252
Valuation difference for property and equipment	84	114
Other temporary differences	16,814	5,206
Deferred tax assets	**806,321**	**719,866**
Net-off of the deferred tax assets and liabilities from the same entity	(216,656)	(246,067)
Deferred tax assets, (net)	**589,665**	**473,799**
Valuation difference of associates and subsidiaries	120,100	127,392
Valuation differences of financial assets and liabilities	71,361	66,149
Valuation difference for property and equipment	39,593	52,212
Other temporary differences	5,133	19,888
Deferred tax liability	**236,187**	**265,641**
Net-off of the deferred tax assets and liabilities from the same entity	(216,656)	(246,067)
Deferred tax liability, (net)	**19,531**	**19,574**

24. EARNINGS PER SHARE

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

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

The following reflects the basic earnings per share computations:

	31 December 2016	31 December 2015
Net profit attributable for the year	2,759,423	1,482,906
Net profit attributable to owners of the Bank	2,756,894	1,556,588
Number of 100 ordinary shares for basic earnings per shares	2,500,000,000	2,500,000,000
Basic earnings per 100 share	1.1028	0.6226
Diluted earnings per 100 share	1.1028	0.6226

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

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

25. EQUITY

Share capital

As at 31 December 2016, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2015: TL 2,500,000). The Bank's paid-in capital is divided into 250,000,000,000 shares, each with a nominal value of 1 Kuruş. As at 31 December 2016, share capital presented in equity amounts to TL 3,300,146 (31 December 2015: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 31 December 2016 (31 December 2015: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005. Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

Board of Directors' members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Non-controlling interest

As at 31 December 2016 and 2015, non-controlling interest is analyzed as follows:

	31 December 2016	31 December 2015
Capital and other reserves	810,143	758,385
Legal reserves	23,279	24,739
Retained earnings	(128,288)	(72,972)
Profit for the year	2,529	(73,682)
Total non-controlling interest	**707,663**	**636,470**

Set out below is non-controlling profit and dividend payment for the year by subsidiaries:

	31 December 2016		31 December 2015	
	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year
Taksim Otelcilik AŞ	(1,175)	-	2,589	-
Vakıf Emeklilik AŞ	10,589	(327)	9,094	(293)
Güneş Sigorta AŞ	(28,864)	-	(114,158)	-
Vakıf Faktoring AŞ	1,819	-	1,828	-
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	9,108	-	18,631	-
Vakıfbank International AG	2,432	-	466	(1,254)
Vakıf Finansal Kiralama AŞ	7,860	-	8,429	-
Vakıf Enerji ve Madencilik AŞ	871	-	(341)	-
Other	(111)	-	(220)	-
Total	**2,529**	**(327)**	**(73,682)**	**(1,547)**

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

25. EQUITY (Continued)

Fair value reserves of available-for-sale financial assets:

	31 December 2016	31 December 2015
Balance at the beginning of the year	15,483	506,220
Net gains/(losses) from changes in fair values	(212,985)	(643,189)
Related deferred and current income taxes	42,597	116,347
Net gains transferred to profit or loss on disposal	(6,970)	36,105
Related deferred and current income taxes	1,394	-
Balance at the end of the year	**(160,481)**	**15,483**

Summarised financial information on subsidiaries

Summarised financial information for each subsidiary that has non-controlling interests that are material to the group as follows:

	Güneş Sigorta A.Ş.		Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.		Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	
	December 2016	December 2015	December 2016	December 2015	December 2016	December 2015
Non-controlling interest ratio (%)	**51.80**	**63.65**	**59.13**	**59.36**	**65.43**	**67.09**
Total Asset	1,756,036	1,536,797	1,029,304	620,465	18,131	18,040
Current Asset	1,171,907	*1,006,201*	211,083	*324,471*	18,097	*18,016*
Non-current Asset	584,129	*530,596*	818,221	*295,994*	34	*24*
Total Liabilities	1,322,841	1,230,695	164,321	34,351	683	358
Total Equity	433,195	306,102	864,983	586,114	17,448	17,682
Interest Income	45,783	36,609	29,080	31,076	295	403
Income on securities portfolio	2,905	17,139	-	1,294	1,211	12,123
Profit/(loss)	(50,762)	(162,569)	42,425	33,805	(237)	(281)

26. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, shareholders (namely General Directorate of the Registered Foundations and Appendant Foundations represented by the General Directorate of the Foundations), subsidiaries, associates, other group companies and key management personnel of the Group or of its parent and their close family members are referred to as related parties.

The Group conducted some business transactions with related parties on normal commercial terms and conditions. The following balances exist and transactions have been entered into with related parties:

	31 December 2016			31 December 2015		
Related party	**Cash loans**	**Non-cash loans**	**Deposits**	**Cash loans**	**Non-cash loans**	**Deposits**
Direct/Indirect shareholders	11,021	43,325	41,203	6	30,492	771,614
Associates	-	-	3,767	-	-	79,449
Key management personnel	70	-	18	-	-	1,396
Total	**11,091**	**43,325**	**44,988**	**6**	**30,492**	**852,459**

	31 December 2016				31 December 2015			
Related party	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**
Direct/Indirect shareholders	25	-	50,957	4	31	-	51,560	4,048
Associates	-	10,500	8	-	-	2,128	2	-
Total	**25**	**10,500**	**50,965**	**4**	**31**	**2,128**	**51,562**	**4,048**

Key Management Remuneration

For the period ended 31 December 2016, the key management personnel received remuneration and fees amounted to TL 33,371 (31 December 2015: TL 24,869).

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

27. FEE AND COMMISSION INCOME

	31 December 2016	31 December 2015
Fee and commission income		
Debit and credit card fee and commission	724,943	620,053
Non-cash loan commission	230,710	186,941
Collection and payment commissions	56,473	87,185
Investigation charges	88,020	72,413
Charge for early settlement of loan	50,771	66,615
Reinsurance commission	61,594	44,623
Account maintenance fee	683	42,216
Money transfer charges	54,920	38,399
Mutual funds commission	24,736	27,319
Other	165,722	165,630
Total fee and commission income	**1,458,572**	**1,351,394**
Fee and commission expense		
Debit and credit card fee and commission	373,382	329,086
Fee and commission for funds borrowed	36,907	31,109
Fee and commission for marketable securities issued	27,023	25,797
Money transfer charges	12,122	8,908
Other	98,243	86,213
Total fee and commission expense	**547,677**	**481,113**
Net fee and commission income	**910,895**	**870,281**

28. OTHER INCOME

As at and for years ended 31 December 2016 and 2015, other income comprised the followings:

	31 December 2016	31 December 2015
Earned premiums	931,787	768,048
Written premiums	968,799	823,958
Change in reserve for unearned premiums	(37,012)	(55,910)
Gain on sale of fixed assets	165,307	109,681
Excess fee charged to customers for communication expenses	40,316	50,723
Individual pension business income	78,307	64,583
Dividend income from equity shares	36,603	9,231
Rent income	987	80,431
Reversal of miscellaneous provision	31,082	21,000
Others	84,314	242,712
Total	**1,368,703**	**1,346,409**

29. SALARIES AND EMPLOYEE BENEFITS

As at and for the years ended 31 December 2016 and 2015, salaries and employee benefits comprised the following:

	31 December 2016	31 December 2015
Wages and salaries	(709,371)	(661,418)
Other fringe benefits	(721,123)	(677,359)
Employer's share of social security premiums	(226,079)	(203,975)
Provision for short term employee benefits	(3,155)	(3,961)
Provision for employee termination benefits	(30,847)	(27,419)
Change in provision for liability for unused vacations	(172,245)	(156,497)
Total	**(1,862,820)**	**(1,730,629)**

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

29. SALARIES AND EMPLOYEE BENEFITS (Continued)

The average number of employees of the Group during the year is:

	31 December 2016	31 December 2015
The Bank	15,615	15,410
Subsidiaries	2,210	2,148
Total	**17,825**	**17,558**

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 4,297 and TL (full TL) 3,828 as at 31 December 2016 and 31 December 2015, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Discount Rate	11.10%	10.20%
Inflation Rate	7.80%	7.10%
Increase in Real Wage Rate	8.80%	8.10%

30. OTHER EXPENSES

As at and for the years ended 31 December 2016 and 2015, other expenses comprised the following:

	31 December 2016	31 December 2015
Incurred insurance claims	(863,211)	(931,051)
Insurance claims paid	(803,528)	*(614,410)*
Change in provision for outstanding claims	(59,683)	*(316,641)*
Banking services promotion expenses	(603,272)	(514,188)
Rent expenses and operating lease charges	(292,300)	(249,041)
Other provision expenses	(132,035)	(135,504)
Saving Deposit Insurance Fund premiums	(138,468)	(124,437)
Communication expenses	(176,872)	(95,425)
Advertising expenses	(94,760)	(78,071)
Cleaning service expenses	(65,459)	(54,331)
Maintenance expenses	(52,947)	(41,642)
Energy expenses	(32,305)	(29,776)
Computer usage expenses	(29,926)	(28,814)
BRSA participation fee	(27,442)	(23,781)
Office supplies	(24,045)	(22,863)
Consultancy expenses	(21,496)	(21,476)
Transportation expenses	(19,442)	(19,271)
Hosting expenses	(20,351)	(17,612)
Credit card promotion expenses	(20,627)	(14,493)
Individual pension business expenses	(1,879)	(1,495)
Loss on sale of assets	(3,351)	(1,231)
Other various administrative expenses	(174,254)	(534,730)
Total	**(2,794,442)**	**(2,939,232)**

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

31. COMMITMENTS AND CONTINGENCIES

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

	31 December 2016	31 December 2015
Letters of guarantee	32,345,773	26,797,593
Letters of credit	6,913,130	4,788,709
Acceptance credits	1,197,186	1,476,013
Other guarantees	23,358	57,586
Total non-cash loans (financial guarantee contracts)	**40,479,447**	**33,119,901**
Credit card limit commitments	8,682,835	7,399,361
Loan granting commitments	9,851,745	8,494,747
Commitments for cheque payments	2,154,102	1,805,569
Commitments for credit card and banking operations promotions	300,108	196,037
Other commitments	19,018,135	16,952,330
Total commitments	**40,006,925**	**34,848,044**
Total commitments and contingencies	**80,486,372**	**67,967,945**

Contingent assets and liabilities

There are various legal cases against the Group for which TL 7,811 (31 December 2015: TL 9,435) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favor of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group's financial position.

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

32. SUBSEQUENT EVENTS

The Parent Bank bonds of which value date are January 20, 2017 have been issued and offered to public through book-building totally 400 million (Full TL) on January 16-17-18, 2017, amounting TL 300 million (Full TL) with 126 days maturity and maturity date of which is May 26, 2017, amounting TL 100 million (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

The Parent Bank bond with the ISIN Code TRQVKFB51735 which has 11.2893% annual compound interest, 10.8962% simple interest and issue price was TL 96,375 with amounting TL 313,381,865 (Full TL) with 126 days maturity and maturity date of which is May 26, 2017.

The Parent Bank bond with the ISIN Code TRQVKFB81716 which has 11.3701% annual compound interest, 11.1210% simple interest and issue price was TL 93,798 with amounting TL 20,354,023 (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

32. SUBSEQUENT EVENTS (Continued)

In 2012, the Parent Bank carried out the sale of bond issued abroad with a maturity of 2022 maturities of USD 900 million. Regulations and amendments made within the scope of BRSA's Regulation on Equities of Banks have made it possible to comply with Basel III regulations in the capital adequacy calculations of banks as contributions capital. In this context, the effect on the capital of the Bank which has issued Basel II compliant subordinated loan provisions issued in 2012 has decreased.

In this context, the operational process of the swap transaction of bonds with a total nominal value of USD 227,605,000 which issued abroad, with the new Basel III compliant conditions, was completed on 13 February 2017 and the redemption date of the bonds to be exchanged was determined as November 1, 2027, with a maturity of 10 years (recall option in 2022) and coupon rate as 8.00%.

VakıfBank bonds, amounting TL 300 million with 154 days maturity and maturity date of which is September 22, 2017 have been issued and offered to public through book-building on April 17-18-19, 2017.

As a result, the ISIN code TRQVKFB91723 of the Vakifbank Bond with a nominal value of TL 190,075,469 (full TL) with a maturity of 154 days and a maturity date of 22 September 2017 annual accumulated interest rate is 11,3464%, the ordinary interest rate is 10,9950% and the export price is 95,567 TL.

On April 24th, 2017, under the coordination of Bank of America Merrill Lynch International Limited and Emirates NBD Capital Limited and National Bank of Abu Dhabi PJSC as the agent bank, VakıfBank signed a syndication loan agreement amounting USD 188.5 million and EUR 716.5 million, USD 967 million equivalent in total with the participation of 37 banks from 18 countries. The 367-days term loan will be used for trade finance purposes and the all-in cost is LIBOR +1.45% for USD tranche and EURIBOR +1.35% for Euro tranche.

…………………….