Türkiye İhracat Kredi Bankası
Anonim Şirketi

Financial Statements
As At and For The Year Ended
31 December 2016
With Independent Auditors' Report Thereon

24 February 2017

This report contains the "Independent Auditors' Report on Financial Statements" comprising 5 pages and; the "Financial statements and their explanatory notes" comprising 73 pages.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Türkiye İhracat Kredi Bankası AŞ

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Türkiye İhracat Kredi Bankası AŞ ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances

Refer to Note 3.11 for the relevant accounting policy and a discussion of significant accounting estimates.

The key audit matter	How the matter was addressed in our audit
The appropriateness of loan loss provisions is a key area of judgment for management. The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Accordingly it is considered a Key Audit Matter.	The controls management has established to support their impairment calculations were tested. The controls over loan allocation to customers, collateralizing and collections were tested. Audit procedures included testing the design and operating effectiveness of selected controls surrounding the credit and impairment process. The audit was focused on impairment due to the materiality of the loan balances and the ability of collection of the Bank and the existence of loan customers. Credit review procedures were performed for a sample of loans, including a detailed review of the individual credit file and other relevant information, from which we formed our own independent assessment. Our sample included individually large exposures and selection of loans identified in our risk assessment.

Application of hedge accounting

Refer to Note 3.8 for the relevant accounting policy and a discussion of significant accounting estimates.

The key audit matter	How the matter was addressed in our audit
To qualify for hedge accounting, certain criteria must be met including documenting the nature and purpose of the hedge and performing regular testing over its effectiveness. Due to the complex nature of the hedge accounting rules this is often an area of significant risk for banks.	For all significant cash flow and fair value hedges, documentation was examined and the relationships assessed to determine if the hedges had been appropriately designated. This included consideration of the hedge objectives and specific compliance with IFRS. Management's hedge effectiveness reviews, and the measurement and recording of hedge ineffectiveness, were tested for a sample of hedge relationships. Controls over the documentation and review of the hedge relationships and their initial and ongoing effectiveness were understood and tested.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

A member of KPMG International Cooperative

Orhan Akova
Partner

24 February 2017
Istanbul, Turkey

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	Notes	**31 December 2016**	**31 December 2015**
ASSETS			
Cash and due from banks	*6*	3,257,199	165,629
Trading securities	*7*	10,678	10,593
Derivative financial instruments	*8*	118,603	3,712
Derivative assets held for risk management	*4*	460,311	105,138
Loans and advances to customers	*9*	61,540,997	43,053,740
Investment securities			
- Available-for-sale	*10*	21,124	18,051
- Held-to-maturity	*10*	98,549	255,968
Property and equipment	*11*	8,209	13,994
Intangible assets	*12*	2,759	2,228
Investment property	*13*	2,331	-
Other assets	*14*	2,626,648	663,297
Total assets		**68,147,408**	**44,292,350**
LIABILITIES			
Funds borrowed	*15*	51,807,130	33,109,841
Debt securities in issue	*15*	7,827,323	5,088,218
Interbank money market deposits	*15*	69,000	200,000
Other liabilities and provisions	*17*	3,033,517	1,053,661
Derivative financial instruments	*8*	41,322	635
Derivative liabilities held for risk management	*4*	150,529	42,823
Retirement benefit obligations	*18*	17,050	15,664
Total liabilities		**62,945,871**	**39,510,842**
EQUITY	*19*		
- *Share capital*		*3,700,000*	*2,500,000*
- *Adjustment to share capital*		*812,518*	*812,518*
Total paid in share capital		4,512,518	3,312,518
Legal reserves		328,050	302,905
Other reserves		22,743	22,743
Hedging reserves		(434)	333
Fair value reserves		11,960	8,886
Retained earnings		326,700	1,134,123
Total equity		**5,201,537**	**4,781,508**
Total liabilities and equity		**68,147,408**	**44,292,350**

The accompanying notes form an integral part of these financial statements.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	Notes	**1 January - 31 December 2016**	**1 January - 31 December 2015**
Interest income	*20*	1,643,054	1,193,866
Interest expense	*20*	(784,056)	(482,628)
Net interest income		**858,998**	**711,238**
Fee and commission income		34,753	25,475
Fee and commission expense		(20,897)	(11,677)
Net fee and commission income		**13,856**	**13,798**
Impairment losses on loans and advances, net	*9*	(12,096)	(4,210)
Foreign exchange gain / (losses), net	*21*	(1,000,621)	(700,836)
Gains/(losses) on financial instruments classified as held for trading, net	*22*	662,131	553,832
Other operating income	*23*	140,993	120,712
Operating profit before operating expenses		**663,261**	**694,534**
Operating expenses	*24*	(241,936)	(205,128)
Net profit for the year		**421,325**	**489,406**

The accompanying notes form an integral part of these financial statements.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	Notes	**1 January - 31 December 2016**	**1 January - 31 December 2015**
Net profit for the period		**421,325**	**489,406**
Other comprehensive income		**2,375**	**(2,266)**
Items that will never be reclassified to profit or loss		**68**	**(102)**
Net change in remeasurements of defined benefit liability		68	(102)
Items that are or may be reclassified to profit or loss		**2,307**	**(2,164)**
Net change in fair values of available-for-sale financial assets		3,074	(2,487)
Cash flow hedges		-	
Effective portion of changes in fair value		(767)	333
Amortisation of the fair value gains of held to maturity investments previously classified as available-for-sale financial assets		-	(10)
Total comprehensive income for the year		**423,700**	**487,140**

The accompanying notes form an integral part of these financial statements.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

		Share capital								
	Notes	**Share Capital**	**Adjustment to share capital**	**Total paid-in capital**	**Legal reserves**	**Other Reserves**	**Hedging Reserves**	**Fair value reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2015		**2,400,000**	**812,518**	**3,212,518**	**280,954**	**22,743**	**-**	**11,383**	**788,120**	**4,315,718**
Profit for the period		-	-	-	-	-	-	-	489,406	489,406
Other comprehensive income for the year		-	-	-	-	-	333	(2,497)	(102)	(2,266)
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**333**	**(2,497)**	**489,304**	**487,140**
Capital increase		100,000	-	100,000	-	-	-	-	(100,000)	-
Dividends paid		-	-	-	-	-	-	-	(21,350)	(21,350)
Transfers to legal reserves		-	-	-	21,951	-	-	-	(21,951)	-
Balance at 31 December 2015		**2,500,000**	**812,518**	**3,312,518**	**302,905**	**22,743**	**333**	**8,886**	**1,134,123**	**4,781,508**
Balance at 1 January 2016	**19**	**2,500,000**	**812,518**	**3,312,518**	**302,905**	**22,743**	**333**	**8,886**	**1,134,123**	**4,781,508**
Profit for the period		-	-	-	-	-	-	-	421,325	421,325
Other comprehensive income for the year		-	-	-	-	-	(767)	3,074	68	2,375
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**(767)**	**3,074**	**421,393**	**423,700**
Capital increase	19	1,200,000	-	1,200,000	-	-	-	-	(1,200,000)	-
Dividends paid	19	-	-	-	-	-	-	-	(3,671)	(3,671)
Transfers to legal reserves		-	-	-	25,145	-	-	-	(25,145)	-
Balance at 31 December 2016	19	**3,700,000**	**812,518**	**4,512,518**	**328,050**	**22,743**	**(434)**	**11,960**	**326,700**	**5,201,537**

The accompanying notes form an integral part of these financial statements.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	Notes	**1 January – 31 December 2016**	**1 January 31 December 2015**
Cash flows from operating activities:			
Net profit for the year		421,325	489,406
Adjustments for:			
Depreciation and amortisation	*24*	5,709	5,422
Provision for loan losses	*9*	12,096	4,210
Provision for employment termination benefits	*18*	1,453	3,103
Provision for unused vacation	*17*	1,013	1,097
Net gain on sale of property and equipment		-	3,661
Interest income, net	20	(858,998)	(711,238)
Interest paid		(784,056)	(466,475)
Interest received		1,582,438	1,187,437
Unrealised foreign exchange differences		(137,509)	1,096,158
Remeasurement of derivative financial instruments		321,671	18,867
		565,142	**1,631,648**
Net increase in loans and advances to customers		(18,389,918)	(11,238,757)
Net decrease in trading securities		(4,143)	38,354
Net (increase)/decrease in due from banks		2,721,806	822
Proceeds from borrowings		79,513,983	58,108,523
Repayments of borrowings		(63,217,945)	(49,402,972)
Net decrease/(increase) in other assets		(1,983,319)	(419,158)
Net increase in other liabilities		1,833,173	408,258
Net cash from/(used in) operating activities		**1,038,779**	**(873,282)**
Cash flows from/(used in) investing activities:			
Purchases of property and equipment	*11*	(1,591)	(1,641)
Proceeds from property and equipment	*11*	170	1,587
Purchases of investment securities	*10*	(18,250)	(160,054)
Redemption of investment securities	*10*	172,196	204,489
Purchases of intangible assets	*12*	(529)	(903)
Net cash generated from investing activities		**151,996**	**43,478**
Cash flows from/(used in) financing activities:			
Proceeds from interbank money market deposit		(131,000)	(20,064)
Proceeds from issuance of debt securities (acquisition)		1,539,386	(38,746)
Proceeds from issuance of debt securities (sale)		(48,551)	-
Dividends paid	*19*	(3,671)	(21,350)
Net cash from/(used in) financing activities		**1,356,164**	**(80,160)**
Effects of exchange-rate changes on cash and cash equivalents		544,631	9,662
Net increase/(decrease) in cash and cash equivalents		**3,091,570**	**(900,302)**
Cash and cash equivalents at the beginning of the year		165,629	1,065,931
Cash and cash equivalents at the end of the year		**3,257,199**	**165,629**

The accompanying notes form an integral part of these financial statements.

1 GENERAL INFORMATION

Türkiye İhracat Kredi Bankası AŞ (the "Bank" or "Eximbank") was established as Turkey's "Official Export Credit Agency" on 25 March 1987 (transformed from "State Investment Bank") as a development and investment bank and accordingly, the Bank does not accept deposits. The Bank's head office is located at Saray Mahallesi, Ahmet Tevfik İleri Caddesi 19 Ümraniye İstanbul/Türkiye. As of 31 December 2016, the Bank has 2 regional directorates in Adana and in İzmir, 1 branch in Gaziantep and 9 liaison offices in Adana, Antalya, Bursa, Denizli, Istanbul (European Side), Kayseri, Konya, Samsun and Trabzon. As of 31 December 2016, the Bank employed 631 people (31 December 2015: 541 people).

The Bank has been mandated to support foreign trade through diversification of the exported goods and services, by increasing the share of exporters and entrepreneurs in international trade, and to create new markets for the exported commodities, to provide exporters and overseas contractors with support to increase their competitiveness and to ensure a lower risk environment in international markets.

As a means of aiding export development services, the Bank provides loan, guarantee and insurance services in order to financially support export and foreign currency earning services. While performing the above mentioned operations, the Bank provides short, medium or long term, domestic and foreign currency lending funded by borrowings from domestic and foreign money and capital markets and from its own sources.

On the other hand, the Bank also performs fund management (treasury) operations related to its core banking operations. These operations are domestic and foreign currency capital market operations, domestic and foreign currency money market operations, foreign currency market operations, derivative transactions, all of which are approved by the Board of Directors.

The losses due to the political risks arising on loan, guarantee and insurance operations of the Bank, are transferred to the Undersecretariat of Treasury ("Turkish Treasury") according to article 4/c of Act number 3332 that was appended by Act number 3659 and according to Act regarding the Public Financing and Debt Management, number 4749, dated 28 March 2002.

2 Basis of preparation

(a) Statement of compliance

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

The Bank maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Turkish Commercial Code, and the Turkish Tax Legislation.

The financial statements of the Bank as at 31 December 2016 are authorised for issue by the management on 24 February 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

(b) Basis of measurement

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

(c) Functional currency and presentation currency

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

(d) Accounting in hyperinflationary countries

Financial statements of the Turkish entities 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 ("TURKSTAT"). This, together with the sustained positive trend in quantitative factors, such as the stabilisation in capital and money markets, decrease in interest rates and the appreciation of TL against the USD and other hard currencies have been taken into consideration to categorise Turkey as a non-hyperinflationary economy under *IAS 29* effective from 1 January 2006.

(e) Use of estimates and judgments

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

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

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 8 – Derivative financial instruments
- Note 9 – Loans and advances to customers
- Note 16 – Other liabilities and provisions

2 Basis of preparation *(continued)*

2.1. Changes in accounting policies

The Bank has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

The accounting policies adopted in the preparation of the financial statements as at 31 December 2016 are consistent with those followed in the preparation of the financial statements of the prior year, except for the new standards and amendments to standards, including any consequential amendments to other standards summarized in related notes.

Standards issued but not yet effective and not early adopted

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank is in the process of assessing the impact of the standard on the financial position or performance of the Bank.

IFRS 15 Revenue from Contracts with customers

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

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

2 Basis of preparation *(continued)*

2.1 Changes in accounting policies *(continued)*

Standards issued but not yet effective and not early adopted *(continued)*

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

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

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

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

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

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

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

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

2 Basis of preparation *(continued)*

2.1 Changes in accounting policies *(continued)*

Standards issued but not yet effective and not early adopted *(continued)*

IAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Bank does not expect that these amendments will have significant impact on the financial position or performance of the Bank.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

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

IFRS 12 "Disclosure of Interests in Other Entities"

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

IAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Foreign currency

i) Foreign currency transactions

Transactions are recorded in TL, which represents the Bank's functional currency. 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 on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss and other comprehensive income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Bank for foreign currency translation are as follows:

	EUR / TL	USD / TL
31 December 2016	3.7000	3.5208
31 December 2015	3.1821	2.9132

ii) Foreign operations

The assets and liabilities are translated into presentation currency of the Bank at the rate of exchange ruling at the reporting date.

3.2 Interest

Interest income and expense are recognised in 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 Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for available-for-sale investment securities calculated on an effective interest basis,

3 Significant accounting policies *(continued)*

3.3 Fees and commission and premium income and expense

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

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

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

Premium income and expense

Insurance programs of the Bank are composed of two schemes: short-term export credit insurance and medium and long-term export credit insurance. Premium income of the Bank under these two schemes represents premiums on policies written during the year, net of cancellations.

In addition, since commencement of the insurance facility, the Bank has sought to reinsure the major portion (currently 70%) of its underwritten short-term commercial risks on the basis of a quota-share treaty concluded with a group of domestic and overseas reinsurance companies. Accordingly, expenses include the premiums paid to reinsurance companies.

Premium income and expense representing reinsurer's share of the premium are recognised in the financial statements on accrual basis over the period of related policy.

Reinsurance commissions

Reinsurance commission income received in relation to ceded premiums is recognised on an accrual basis.

3.4 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of available for sale securities.

3.5 Dividends

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

3.6 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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 rate on the remaining balance of the liability.

3 Significant accounting policies *(continued)*

3.7 Income tax expense

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3rd Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states "The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520", the exemption from Corporation Tax continues. Accordingly, current tax and deferred tax are not recognised in these financial statements.

3.8 Financial assets and liabilities

Recognition

The Bank initially recognises loans and advances and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Classification

Financial assets:

The Bank classifies its financial assets into one of the following categories:

Loans and receivables

Held to maturity

Available-for-sale; and

At fair value through profit or loss, and within this category as:

- Held for trading.

See 3.10, 3.11 and 3.12.

3 Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Offsetting

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

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

Fair value measurement

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

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

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

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

3 Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

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

Derivative financial instruments

Derivatives are initially recorded with their fair values and related transaction costs as of the contract date are recorded in profit or loss. The following periods of initial reporting, they are measured with their fair values. The result of this assessment, offsetting debit and credits stemming from each contract debit and credits are reflected to the financial statements as a contract-based single asset and liability. The method of accounting gain or loss changes according to related derivative transaction whether to be held for cash flow hedges or not and to the content of hedge account.

The Bank notifies in written the relationship between hedging instrument and related account, risk management aims of hedge and strategies and the methods using to measure of the hedge effectiveness. The Bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

Changes in fair values of derivative transactions under fair value hedges are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Trading Gains/Losses on derivative financial instruments” account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. In case of inferring hedge accounting, corrections made to the value of hedge account using straight-line amortization method within the days to maturity are reflected to “Trading gains/losses on derivative financial instruments” account in the income statement.

The Bank is protected from cash flow risk arising from floating-rate liabilities in foreign currency and TL by cross-currency swaps. In this context, the fair value changes of the effective portion of the hedging instruments are accounted under the "hedging reserves" account within equity. In the period in which the cash flows affect the statement of profit or loss for the hedged item, the hedging instrument relating to the profit / loss extracted from equity and recognized in the statementof profit or loss.

In cash flow hedge accounting, if it is not continued to hedge because of termination, realization, sale, stop hedging and inefficient hedge effectiveness of hedging instruments, hedge oriented account amounts that realized under shareholders’ equity will transferred to profit/loss accounts.

The Bank classifies its derivative instruments except for derivatives held for cash flow hedges as “Held-for-hedging” or “Held-for-trading” in accordance with “Financial Instruments: International Accounting Standard for Recognition and Measurement (“IAS 39”)”. According to this, certain derivative transactions while providing effective economic hedges under the Bank’s risk management position, are recorded under the specific rules of IAS 39 and are treated as derivatives “Held-for-trading”.

Derivative instruments are re-measured at fair value after initial recognition. If the fair value of a derivative financial instrument is positive, it is disclosed under the main account “Financial assets at fair value through profit or loss” in “Derivative financial assets held for trading” and if the fair value difference is negative, it is disclosed under “Derivative financial liabilities held for trading”. Differences in the fair value of trading derivative instruments are accounted under “trading income/loss” in the statement of profit or loss.

The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

3 Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Identification and measurement of impairment

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary legal and regulatory procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in profit or loss.

Repurchase and resale transactions

The Bank enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognised in the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

3.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

3 Significant accounting policies *(continued)*

3.10 Trading assets and liabilities

'Trading assets and liabilities' are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. Any gains or losses resulting from such valuation are recorded in profit and loss. Any positive difference between the historical cost and amortised cost of financial assets are recognised under the "Interest Income" account, and in case the fair value of the asset is over the amortised cost, the positive difference is recognised in the "Gains and Losses on Financial Instruments Classified as Held for Trading – Trading Income" account. If the fair value is less than the amortised cost, the negative difference is recognised under the "Gains and Losses on Financial Instruments Classified as Held for Trading – Trading Expense" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognised within the framework of the same principles. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3.11 Loans and advances

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorised as loans originated by the Bank and are carried at amortised cost, net of any provision for impairment losses. All originated loans are recognised when cash is advanced to borrowers. Cash guarantees received for loans and advances given are recorded under "other liabilities" upon receipt and repaid back to the borrower on the maturity date when the Bank collects all amounts due.

A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the original effective interest rate. The level of the provision is also based on applicable banking regulations. An additional provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

The provision made during the year is charged against the income for the year. Loans that cannot be recovered are written off against the allowance for impairment losses. Such loans are written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for impairment losses for the period.

3 Significant accounting policies *(continued)*

3.12 Investment securities

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Bank has the intent and ability to hold until maturity. Investment securities held-to-maturity is initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in profit or loss.

Available-for-sale financial investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale reserve".

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

3 Significant accounting policies *(continued)*

3.13 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful life for the current and comparative periods is as follows:

	Years
Buildings	50 years
Vehicles	5 years
Other tangible assets	1 - 50 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reviewed at each financial period end and adjusted if appropriate.

3 Significant accounting policies *(continued)*

3.14 Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to five years.

3.15 Investment property

Investment properties consist of properties held for obtaining lease income and/or held for recognizing fair value increase. Investment properties are accounted with the cost amount after deduction of accumulated depreciation and permanent impairement losses. Investment properties are depreciated in accordance with the useful life principles with straight-line depreciation method. Gains or losses rising from the disposal or out of usage of the investment property, shall be determined as the difference between the net income from the sale and the carrying amount of the asset and shall be recognised in profit or loss in the period of disposal or out of usage.

3.16 Assets held for sale

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

3.17 Impairment of non-financial assets

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

An impairment loss is recognised 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 Bank that generates cash flows that largely are independent from other assets and Banks. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (Bank of units) on a pro rata basis.

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.

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

3.18 Funds borrowed

Funds borrowed are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3 Significant accounting policies *(continued)*

3.19 Debt Securities

Debt securities issued are carried at "amortized cost" using the "effective interest method", except where the Bank chooses to carry the liabilities at fair value through profit or loss.

3.20 Provisions

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

A provision for restructuring is recognised when the Bank 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.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3.21 Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 (2011) ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 (2011) ("Employee Benefits") has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

Short-term employee benefits

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

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

The Bank does not have any internally set defined contribution plan.

3.22 Events after the reporting period

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

4 FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

As of 31 December 2016, the loan portfolio of the Bank constitutes 90% (31 December 2015: 97%) of total assets. In short, medium and long term lending (except for fund sourced and country loans), the Bank is taking the risk of the Turkish banking system, however medium-to-long term country loans are under the political risk guarantee of the Turkish Treasury.

The Board of Directors of the Bank sets risk limits and parameters for the transactions having significant implications for the operations of the Bank.

The objective of the Bank's asset and liability management and use of financial instruments is to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy.

(b) Credit risk

According to article numbered 25 of the decree (regulating the "Articles of Association" of the Bank) of the Council of Ministers dated 17 June 1987; the scope of the annual operations of the Bank is determined by the Bank's Annual Program that is approved by Supreme Advisory and Credit Guidance Committee ("SCLGC"). SCLGC is chaired by the Prime Minister or State Minister appointed by the Prime Minister and includes executive managers. The Board of Directors of the Bank is authorised to allocate the risk limits of loan, guarantee and insurance premium to country, sector and commodity Banks, within the principles set by the Annual Program.

In accordance with the collateralisation policy of the Bank, the Bank is taking the risks of short term loans to domestic banks. The cash and non-cash limits of domestic banks for short term and medium and long term credits are approved by the Board of Directors.

Board of Directors fulfilled authorisations for the determination of loan limits for a person or legal entity, limited with only the loans which were given with respect to specified guaranties, within the framework of the 5th item in the Regulation related with Loan Transactions.

The risk limits of the foreign country loans are determined by annual programs which are approved by SCLGC within the foreign economic policy.

Country loans are granted with the approval of the Board of Directors and the approval of the Minister and the Council of Ministers; according to article 10 of Act number 4749 dated 28 March 2002 related to the regulation of Public Finance and Debt Management.

The fundamental collateral of the foreign country loans are the government guarantee of the counter country and the guarantee of banks that the Bank accepts as accredited.

The limit of a country is restricted by both "maximum limit that can be undertaken" and "maximum amount that can be used annually".

Each year major portion of the commercial and politic risks emerged in Short Term Export Insurance Program is transferred to international reinsurance companies under renewed agreements.

According to the Article 4/C of Act number 3332 that was appended by Act number 3659 and Act regarding the regulation of Public Financing and Debt Management dated 28 March 2002, the losses incurred by the Bank in its credit, guarantee and insurance transactions as a result of political risks are covered by the Turkish Treasury.

The Bank reviews reports of OECD country risk ratings, reports of the members of the International Union of Credit and Investment Insurers, reports of independent credit rating institutions and the financial statements of the banks risks of which are undertaken during the assessment and review of the loans granted. In addition, country reports and short term country risk classifications prepared within the Bank are also utilised.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The risks and limits of companies and banks are followed by both loan and risk departments on a weekly and monthly basis.

In addition, all of the foreign exchange denominated operations and other derivative transactions of the Bank are carried out under the limits approved by the Board of Directors.

Business and geographic distribution of the loan risks runs parallel with the export composition of Turkey and this is followed up by the Bank regularly.

Impairment and provisioning policies

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank considers evidence of impairment for loans and advances at a specific asset level.

The classification of the loan portfolio of the Bank under the following categories is as follows:

	31 December 2016		**31 December 2015**	
	Corporate loans	**Personnel loans**	**Corporate loans**	**Personnel Loans**
Neither past due nor impaired	61,570,776	9,297	43,122,712	7,569
Past due but not impaired	603	-	52,441	-
Individually impaired	233,087	-	131,688	-
Total loans and advances to customers	**61,804,466**	**9,297**	**43,306,841**	**7,569**
Allowance for impairment losses	(272,766)	-	(260,670)	-
Net loans and advances to customers	**61,531,700**	**9,297**	**43,046,171**	**7,569**

As of 31 December 2016 and 31 December 2015, loans and advances that are past due but not impaired are as follows:

	31 December 2016	**31 December 2015**
Past due up to 30 days	-	48,298
Past due 30-60 days	603	-
Past due 60-90 days	-	4,143
Past due 90 days-one year	-	-
Past due over one year	-	-
Total loans and advances that are past due but not impaired	**603**	**52,441**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

In line with the mission of the Bank, the Bank grants loans only to corporate customers either directly or indirectly through banks and financial institutions and follows its credit portfolio under categories specified below:

	31 December 2016		31 December 2015	
	Corporate loans	**Personnel loans**	**Corporate loans**	**Personnel loans**
Standard loans and advances	61,570,776	9,297	43,093,837	7,569
Loans and advances under close monitoring[1]	603	-	81,316	-
Impaired loans and advances	233,087	-	131,688	-
Total loans and advances to customers	**61,804,466**	**9,297**	**43,306,841**	**7,569**
Allowance for impairment losses	(272,766)	-	(260,670)	-
Net loans and advances to customers	**61,531,700**	**9,297**	**43,046,171**	**7,569**

(1) As of 31 December 2016, loans and advances under close monitoring includes loans amounting to TL 232,227 (31 December 2015: TL 81,316) that were not past due but had been extended to customers whose other loans are under close monitoring.

As of 31 December 2016 and 31 December 2015 the fair value of collaterals held for total loans and advances are as follows:

	31 December 2016		31 December 2015	
	Corporate Loans	**Personnel loans**	**Corporate loans**	**Personnel Loans**
Loans guaranteed by other banks	54,908,987	-	37,725,505	-
Loans guaranteed by a third party	-	9,297	-	7,569
Total	**54,908,987**	**9,297**	**37,725,505**	**7,569**
Unsecured exposures[1]	6,895,479	-	5,581,336	-
Total loans and advances to customers	**61,804,466**	**9,297**	**43,306,841**	**7,569**

(1) Unsecured exposures represent loans and advances granted to domestic banks, foreign banks and other financial institutions and individually impaired loans.

As of 31 December 2016, the Bank does not have repossessed collateral (31 December 2015: None).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

Bank's credit rating system

The risk assessment of banks and other financial institutions

The Bank requests independent auditor's report in addition to financial statements and related notes and net foreign currency position from banks and other financial institutions on a quarterly basis.

Financial statement information derived from the independent audit or review reports of banks and other financial institutions is recorded into a database in a standard format and percentage changes and ratios related with the capital adequacy, asset quality, liquidity and profitability of the banks and other financial institutions are calculated. In addition, the standard ratios for capital adequacy, asset quality, liquidity and profitability ratios are redefined periodically considering the operations of the banks and acceptable intervals for standard ratios are defined.

In accordance with the standard ratios, the risk ratings of banks are defined by assigning grades from 1 to 4 to banks and other financial institutions. Bank with grade 1 consists of the lowest risk profile of banks and financial institutions and bank with grade 4 consists of the highest risk profile of banks and financial institutions.

In accordance with the risk concentration of the banks and other financial institutions, the final risk is determined by considering qualitative factors such as shareholding structure, group companies, credit ratings from international credit rating institutions, quality of management and also information obtained from media.

As of 31 December 2016, loans granted by the Bank to banks and other financial institutions amount to TL 8,348,389 (31 December 2015: TL 5,971,809). As of 31 December 2016 and 31 December 2015, the concentration level of the loans and advances to banks and other financial institutions which are neither past due nor impaired in accordance with the defined financial analysis of the Bank is as follows:

		31 December 2016	**31 December 2015**
	Rating class	**Concentration level (%)**	**Concentration level (%)**
Low	1-2	65	67
Medium	3	23	25
High	4	12	8

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The risk assessment of the companies:

In the risk evaluation of the companies, the Bank obtains financial and organisational information both from the companies and also from various sources (such as Central Bank of the Republic of Turkey ("CBRT") records, Trade Registry Gazette, Chamber of Trade records, information obtained from the Undersecretariat of Foreign Trade, banks and companies operating in the same sector) and uses investigation and verification methods. In addition to the analysis of the last three year financial statements of the companies, the Bank also analyses the current status of the sectors in which the companies operate, economic and political changes affecting the target sectors in the international markets, the advantages and disadvantages of the companies compared to their rival companies operating in or outside Turkey. In case the company is a member of a group of companies not organised as a holding company, the developments that affect the Bank's operations are monitored and outstanding bank debts of the Bank are also assessed and company analysis reports are prepared taking into account the group risk as well. The Bank does not utilise a separate rating system regarding the risk assessment of the companies.

As of 31 December 2016 and 31 December 2015, the analysis of credit limits for top 60 corporate customers constituting approximately 44% and 43%, respectively of total loans to corporate customers amounting to TL 26,941,533 (31 December 2015: TL 17,220,853) and whose loans are neither past due nor impaired at 31 December 2016 and 31 December 2015 is as follows;

	31 December 2016	**31 December 2015**
Credit limits (TL)	**Concentration level (%)**	**Concentration level (%)**
0 - 20,000	-	-
20,000 - 40,000	-	-
40,000 - 60,000	-	-
Over 60,000	100.00	100.00
Total	**100.00**	**100.00**

As of 31 December 2016 and 31 December 2015, the classification and allowance percentages of the loans and advances of the Bank are as follows:

	31 December 2016		**31 December 2015**	
	Loans and advances (%)	**Allowance for loan losses (%)**	**Loans and advances (%)**	**Allowance for loan losses (%)**
Standard loans and advances	99.25	0.20	99.51	0.29
Loans and advances under close monitoring	0.38	0.00	0.19	0.01
Impaired loans and advances	0.37	0.37	0.30	0.30
Total	**100.00**	**0.58**	**100.00**	**0.60**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

The Bank's maximum exposure to credit risk as of 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Credit risk exposures relating to on-balance sheet assets:		
Due from banks	3,257,199	165,629
Loans and advances to		
- Domestic banks and other financial institutions	6,637,509	5,281,278
- Foreign banks and other financial institutions	1,710,880	742,691
- Corporate customers other than banks and financial institutions and personnel	53,192,608	37,029,771
Derivative assets held for trading	118,603	3,712
Derivative assets held for risk management	460,311	105,138
Trading securities	10,678	10,593
Investment securities		
-Held to maturity	98,549	255,968
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	3,863,578	2,754,481
Total	**69,349,915**	**46,349,261**

There are no financial assets that are past due but not impaired and there are no past due or impaired financial assets at 31 December 2016 and 31 December 2015, other than loans and advances explained above. As of 31 December 2016 and 31 December 2015, the trading securities and investment securities (held to maturity securities) are issued by the Turkish Treasury, the controlling shareholder of the Bank.

The table below shows the concentration level of due from banks for domestic banks and financial institutions which constitute approximately 62% of due from banks account at 31 December 2016 and 63% of due from banks account at 31 December 2015;

		31 December 2016	31 December 2015
	Rating class	Concentration level (%)	Concentration level (%)
Low	1-2	65	63
Medium	3	23	36
High	4	12	1

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

As of 31 December 2016 and 31 December 2015 the geographical distribution of the on-balance sheet assets exposed to credit risk:

	Turkey	EU countries	OECD countries[1]	USA	Other Countries	Total
Cash and due from banks	2,162,163	1,033,072	6,769	55,195	-	**3,257,199**
Loans and advances to						
- Domestic banks and other financial institutions	6,637,509	-	-	-	-	**6,637,509**
- Foreign banks and other financial institutions		-	-	-	1,710,880	**1,710,880**
- Corporate customers and personnel	53,192,608	-	-	-	-	**53,192,608**
Trading securities	10,678	-	-	-	-	**10,678**
Derivative assets held for trading	-	118,603	-	-	-	**118,603**
Derivative assets held for risk management	-	460,311	-	-	-	**460,311**
Investment securities						
- Held-to-maturity	98,549	-	-	-	-	**98,549**
As of 31 December 2016	**62,101,507**	**1,611,986**	**6,769**	**55,195**	**1,710,880**	**65,486,337**

	Turkey	EU countries	OECD countries[1]	USA	Other countries	Total
Cash and due from banks	116,739	15,027	908	32,955	-	**165,629**
Loans and advances to						
- Domestic banks and other financial institutions	5,229,118	-	-	-	-	**5,229,118**
- Foreign banks and other financial institutions	-	-	-	-	742,691	**742,691**
- Corporate customers and personnel	37,081,931	-	-	-	-	**37,081,931**
Trading securities	10,593	-	-	-	-	**10,593**
Derivative assets held for trading	-	3,712	-	-	-	**3,712**
Derivative assets held for risk management	-	105,138	-	-	-	**105,138**
Investment securities						
- Held-to-maturity	255,968	-	-	-	-	**255,968**
As of 31 December 2015	**42,694,349**	**123,877**	**908**	**32,955**	**742,691**	**43,594,780**

(1) The OECD countries except for EU countries, Canada and USA.

4 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk

Market risk refers to the possibility of loss that may arise due to interest, exchange rate and price changes arising from fluctuations in the financial markets in the positions of the Bank on its balance sheet and off-balance sheet accounts and consequent changes in the Bank income / expense item and equity profitability. In order to hedge against the market risk that the Bank may be exposed to as a result of financial activities, all Turkish Lira (TL) and foreign currency securities portfolio for trading purposes are evaluated on a daily basis with the current rates in the market. In order to limit the possible loss that may arise from market risk, the maximum amount of transactions that can be carried per day, including securities transactions, the maximum amount of transactions and the limit for termination of damages are applied within the limits set by the Board of Directors for all trading transactions. "Exchange Rate" and "Interest Rate" are calculated based on the "Standard Method and Market Risk Measurement Method" published by the BRSA in the calculation of the market risk exposed to the Bank in the Capital Adequacy Analysis Form.

Derivative transactions are initially measured at fair value and transaction costs that are attributable to them are recognized in profit or loss as they are incurred. They are valued with their fair values in subsequent periods. This valuation result is reflected in the financial statements as a single asset or liability on a contract basis by netting off the receivables and payables arising from each contract within their fair values. The method of accounting for the resulting profit or loss varies depending on whether the derivative is intended for hedging or not and the content of the hedged asset.

		Risk Weighted Amounts
	Outright Products	
1	Interest rate risk (general and specific)	264,025
2	Equity risk (general and specific)	-
3	Foreign exchange risk	182,550
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	388
7	Scenario approach	-
8	Securitizations	-
9	**Total**	**446,963**

(c) Currency risk

Foreign currency denominated assets and liabilities, together with purchase and sale commitments give rise to foreign exchange exposure.

The Bank's foreign exchange position is followed daily, and the transactions are performed in accordance with the expectations in the market and within the limits determined by the Risk Management Principles approved by the Board of Directors of the Bank.

The Bank attempts to maintain a square position in foreign exchange through its on-balance sheet and off-balance sheet activities. As part of its strategy to manage the impact of exchange rates and to hedge against foreign exchange exposure, the Bank enters into swap transactions. Short-term currency swap transactions, carried out during the year to meet exporters' foreign exchange loan demand and to manage the Bank's foreign currency risk.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorised by currency.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Currency risk *(continued)*

The table below summarises the Bank's exposure to foreign currency exchange rate risk as monitored by management at 31 December 2016 and 31 December 2015.

	31 December 2016				
	USD	**EUR**	**Other**	**TL**	**Total**
Cash and due from banks	2,006,163	752,564	8,788	489,684	**3,257,199**
Trading securities	-	-	-	10,678	**10,678**
Derivative financial instruments	116,574	-		2,029	**118,603**
Derivative assets held for risk management	105,554	-	-	354,757	**460,311**
Loans and advances to customers	25,844,659	27,669,329	49,989	7,977,020	**61,540,997**
Investment securities					
- Available-for-sale	-	-	-	21,124	**21,124**
- Held-to-maturity	-	-	-	98,549	**98,549**
Property and equipment and intangible assets	-	-	-	10,968	**10,968**
Investment property	-	-	-	2,331	**2,331**
Other assets	109,712	1,854,896	140,637	521,403	**2,626,648**
Total assets	**28,182,662**	**30,276,789**	**199,414**	**9,488,543**	**68,147,408**
Funds borrowed	26,635,726	24,430,809	740,595	-	**51,807,130**
Debt securities in issue	7,827,323	-	-	-	**7,827,323**
Interbank money market deposits	-	-	-	69,000	**69,000**
Derivative financial instruments	-	41,105	-	217	**41,322**
Derivative liabilities held for risk management	149,014	-	-	1,515	**150,529**
Other liabilities	615,934	2,163,551	104,421	149,611	**3,033,517**
Reserve for employment termination Benefits	-	-	-	17,050	**17,050**
Equity	-	-	-	5,201,537	**5,201,537**
Total liabilities and equity	**35,227,997**	**26,635,465**	**845,016**	**5,438,930**	**68,147,408**
Net balance sheet position	**(7,045,335)**	**3,641,324**	**(645,602)**	**4,049,613**	
Off balance sheet derivative instruments net notional position	**7,205,240**	**(3,636,425)**	**643,601**	**4,212,416**	**8,424,832**

At 31 December 2016, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 3.5208 = US Dollar 1 ("USD") and TL 3.700 = EUR 1.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Currency risk *(continued)*

	31 December 2015				
	USD	**EUR**	**Other**	**TL**	**Total**
Cash and due from banks	106,599	12,851	3,285	42,894	**165,629**
Trading securities	-	-	-	10,593	**10,593**
Derivative financial instruments	2,918	-	5	789	**3,712**
Derivative assets held for risk management	79,868	-	-	25,270	**105,138**
Loans and advances to customers	20,831,868	15,330,721	32,058	6,859,093	**43,053,740**
Investment securities					
- Available-for-sale	-	-	-	18,051	**18,051**
- Held-to-maturity	-	-	-	255,968	**255,968**
Property and equipment and intangible assets	-	-	-	16,222	**16,222**
Other assets	45,269	513,163	24	104,841	**663,297**
Total assets	**21,066,522**	**15,856,735**	**35,372**	**7,333,721**	**44,292,350**
Funds borrowed	18,879,576	14,175,231	4,924	50,110	**33,109,841**
Debt securities in issue	5,088,218	-	-	-	**5,088,218**
Interbank money market deposits	-	-	-	200,000	**200,000**
Derivative financial instruments	302	-	-	333	**635**
Derivative liabilities held for risk management	9,969	-	-	32,854	**42,823**
Other liabilities	286,030	658,113	57	109,461	**1,053,661**
Reserve for employment termination Benefits	-	-	-	15,664	**15,664**
Equity	333	-	-	4,781,175	**4,781,508**
Total liabilities and equity	**24,264,428**	**14,833,344**	**4,981**	**5,189,597**	**44,292,350**
Net balance sheet position	**(3,197,906)**	**1,023,391**	**30,391**	**2,144,124**	
Off balance sheet derivative instruments net notional position	**3,263,994**	**(1,010,867)**	**(27,843)**	**(2,250,160)**	**(24,876)**

At 31 December 2015, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 2.9132 = US Dollar 1 ("USD") and TL 3.1821 = EUR 1.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Currency risk *(continued)*

As of 31 December 2016 and 31 December 2015, the effect of the devaluation of TL by 10% against other currencies mentioned below, on net profit and equity of the Bank, are presented in the table below. The analysis covers all foreign currency denominated assets and liabilities. The other variables, especially interest rates are assumed to be fixed.

	31 December 2016		31 December 2015	
	Effect on net profit	**Effect on equity[1]**	**Effect on net profit**	**Effect on equity[1]**
USD	15,991	17,187	6,576	6,609
EUR	490	490	1,252	1,252
Other currencies	(200)	(200)	255	255
Total	**16,281**	**17,477**	**8,083**	**8,116**

(1) Effect on equity also includes effect on net income.

As of 31 December 2016 and 31 December 2015, the effect of the appreciation of TL by 10% against other currencies with all other variables held constant, on net profit and equity of the Bank is the same as the total amount with a negative sign as presented in the above table.

(e) Interest rate risk

The Bank estimates the effects of the changes in interest rates on the profitability of the Bank by analysing TL and foreign currency denominated interest rate sensitive assets and liabilities considering both their interest components as being fixed rate or variable rate and also analysing their weights among the Bank's total assets and liabilities. Long or short positions arising from interest rate risk are determined by currency types at the related maturity intervals (up to 3 months, 3 months to 1 year, 1 year to 5 years and over 5 years) as of the period remaining to repricing date, considering the repricing of TL and foreign currency-denominated interest sensitive assets and liabilities at maturity date (for fixed rate) or at interest payment dates (for floating rate). By classifying interest sensitive assets and liabilities according to their repricing dates, Bank's exposure to possible variations in market interest rates are determined.

The Bank determines maturity mismatches of assets and liabilities by analysing the weighted average days to maturity of TL and foreign currency-denominated (for each currency and in total in terms of their USD equivalents) assets and liabilities.

According to the Risk Management Policy approved by the Board of Directors, the Bank emphasises the matching of assets and liabilities with fixed and floating interest rates and under different currencies and also pays special attention to the level of maturity mismatch of assets and liabilities with floating and fixed interest rates in relation to the asset size of the Bank in order to limit the negative effects of interest rate changes on the Bank's profitability.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

As of 31 December 2016 and 31 December 2015, the tables below summarise the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates;

	31 December 2016					
	Up to 3 Months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks	2,501,215	-	-	-	755,984	**3,257,199**
Trading securities	-	-	2,051	8,627	-	**10,678**
Derivative financial instruments	118,603	-	-	-	-	**118,603**
Derivative assets held for risk management	140,901	236,812	82,598	-	-	**460,311**
Loans and advances to customers	27,973,758	32,995,452	482,484	-	89,303	**61,540,997**
Investment securities						
- Available-for-sale	-	-	-	-	21,124	**21,124**
- Held-to-maturity	59,395	39,154	-	-	-	**98,549**
Property and equipment and intangible assets	-	-	-	-	10,968	**10,968**
Investment property	-	-	-	-	2,331	**2,331**
Other assets	-	-	-	-	2,626,648	**2,626,648**
Total assets	**30,793,872**	**33,271,418**	**567,133**	**8,627**	**3,506,358**	**68,147,408**
Funds borrowed	19,977,226	29,095,987	2,733,917	-	-	**51,807,130**
Debt securities in issue	90,558	335,515	6,042,471	1,358,779	-	**7,827,323**
Interbank money market deposits	69,000	-	-	-	-	**69,000**
Derivative financial instruments	992	50	40,280	-	-	**41,322**
Derivative liabilities held for risk management	51,133	60,980	38,416	-	-	**150,529**
Other liabilities	60,415	198,323	38,416	-	2,736,363	**3,033,517**
Reserve for employee benefits	-	-	-	-	17,050	**17,050**
Total liabilities	**20,249,324**	**29,690,855**	**8,893,500**	**1,358,779**	**2,753,413**	**62,945,871**
Net repricing gap	**10,544,548**	**3,580,563**	**(8,326,367)**	**(1,350,152)**	**752,945**	**5,201,537**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

	31 December 2015					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks	146,366	-	-	-	19,263	**165,629**
Trading securities	-	-	1,963	8,630	-	**10,593**
Derivative financial instruments	966	2,746	-	-	-	**3,712**
Derivative assets held for risk management	21,667	83,471	-	-	-	**105,138**
Loans and advances to customers	17,892,645	24,458,461	693,138	9,496	-	**43,053,740**
Investment securities						
- Available-for-sale	-	-	-	-	18,051	**18,051**
- Held-to-maturity	59,399	186,633	9,936	-	-	**255,968**
Property and equipment and intangible assets	-	-	-	-	16,222	**16,222**
Other assets	-	-	-	-	663,297	**663,297**
Total assets	**18,122,009**	**24,734,058**	**705,037**	**18,126**	**713,120**	**44,292,350**
Funds borrowed	15,309,882	17,799,959	-	-	-	**33,109,841**
Debt securities in issue	-	3,560,744	57,340	1,470,134	-	**5,088,218**
Interbank money market deposits	200,000	-	-	-	-	**200,000**
Derivative financial instruments	302	333	-	-	-	**635**
Derivative liabilities held for risk management	3,746	39,077	-	-	-	**42,823**
Other liabilities	9,656	166,085	5,085	-	872,835	**1,053,661**
Reserve for employee benefits	-	-	-	-	15,664	**15,664**
Total liabilities	**15,523,586**	**21,566,198**	**62,425**	**1,470,134**	**888,499**	**39,510,842**
Net repricing gap	**2,598,423**	**3,167,860**	**642,612**	**(1,452,008)**	**(175,379)**	**4,781,508**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

The tables below summaries the range for effective average interest rates by major currencies for monetary financial instruments of the Bank at 31 December 2016 and 31 December 2015:

	31 December 2016			
	USD (%)	**EUR (%)**	**JPY (%)**	**TL (%)**
Assets				
Cash and due from banks				
-Cash equivalents	0.40	-	-	-
-Time deposits in foreign banks	0.54	0.09	-	-
-Time deposits in domestic banks	-	-	-	9.82
-Interbank money market placements	-	-	-	10.29
Trading securities	-	-	-	8.30
Loans and advances to customers	2.09	1.54	1.68	8.41
Investment securities				
-Held-to-maturity	-	-	-	10.72
Liabilities				
Funds borrowed	0.98	0.55	1.70	-
Debt securities in issue	5.38	-	-	-
Interbank money market deposits	-	-	-	8.82

	31 December 2015			
	USD (%)	**EUR (%)**	**JPY (%)**	**TL (%)**
Assets				
Cash and due from banks				
-Time deposits in foreign banks	0.36	0.30	-	-
-Time deposits in domestic banks	-	-	-	10.77
-Interbank money market placements	-	-	-	10.30
Trading securities	4.44	-	-	6.02
Loans and advances to customers	1.80	1.68	1.93	7.91
Investment securities				
-Held-to-maturity	6.81	-	-	10
Liabilities				
Funds borrowed	0.64	0.61	-	11.35
Debt securities in issue	5.35	-	-	-
Interbank money market deposits	-	-	-	10.11

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(e) Interest rate risk *(continued)*

In the analysis presented below, the sensitivity of profit or loss is the effect in the interest rates on the net interest income of floating rate financial assets and liabilities at 31 December 2016 and 31 December 2015. The sensitivity of the shareholders’ equity at 31 December 2016 and 31 December 2015 is calculated through revaluating the financial assets available-for-sale taking into account the possible changes in interest rates, where applicable. The tax effects are not considered in the analysis. The other variables, especially exchanges rates, are assumed to be fixed in this analysis.

31 December 2016	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders’ equity – losses/ shareholders’ equity (%)
1	TL	500	(97,182)	(1.82)
		(400)	83,659	1.57
2	EURO	200	(11,250)	(0.21)
		(200)	1,379	0.03
3	USD	200	150,330	2.82
		(200)	(164,315)	(3.08)
	Total (For negative shocks)		**(79,277)**	**(1.48)**
	Total (For positive shocks)		**41,898**	**0.79**

31 December 2015	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders’ equity – losses/ shareholders’ equity (%)
1	TL	500	(107,610)	(2.18)
		(400)	93,263	1.89
2	EURO	200	(9,982)	(0.20)
		(200)	1,572	0.03
3	USD	200	128,080	2.59
		(200)	(144,744)	(2.93)
	Total (For negative shocks)		**(49,909)**	**(1.01)**
	Total (For positive shocks)		**10,488**	**0.21**

(f) Liquidity risk

A major objective of the Bank’s asset and liability management is to ensure that sufficient liquidity is available to meet the Bank’s commitments and to satisfy the Bank’s own liquidity needs. The Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets determined by the Board of Directors which it judges sufficient to meet its commitments.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity management of the Bank. The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions. It is unusual for banks ever to be completely matched since the maturity, interest rates and the types of business transactions are different. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank uses the TL and foreign currency cash flow schedules prepared weekly, monthly and annually in the decision making process of the liquidity management.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

The Bank's liquidity coverage rates for 2016 are presented in the table below.

		Total Unweighted Value (Average) (*)		Total Weighted Value (Average) (*)	
Current Period		**TL+FC**	**FC**	**TL+FC**	**FC**
High-Quality Liquid Assets					
1	Total high-quality liquid assets (HQLA)			600,004	546,181
Cash Outflows					
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-
3	Stable deposits	-	-	-	-
4	Less stable deposits	-	-	-	-
5	Unsecured wholesale funding, of which:	-	-	-	-
6	Operational deposits	-	-	-	-
7	Non-operational deposits	-	-	-	-
8	Unsecured funding	3,509,804	3,509,804	3,509,804	3,509,804
9	Secured wholesale funding			-	-
10	Other cash outflows of which:	-	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	-	-	218,070	214,620
12	Outflows related to restructured financial instruments	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	-	-	1,131,953	1,131,739
14	Other revocable off-balance sheet commitments and contractual obligations	-	-	149,549	127,387
15	Other irrevocable or conditionally revocable off-balance sheet obligations	-	-	174,493	174,493
16	**Total Cash Outflows**			**5,183,869**	**5,158,043**
Cash Inflows					
17	Secured receivables	-	-	-	-
18	Unsecured receivables	6,043,595	4,736,001	6,043,595	4,736,001
19	Other cash inflows	62,858	2,928	62,858	2,928
20	**Total Cash Inflows**	**6,106,453**	**4.738.929**	**6,106,453**	**4,738,929**
				Max Limit applied values	
21	**Total HQLA**			**600,004**	**546,181**
22	**Total Net Cash Outflows**			**1,387,808**	**1,589,450**
23	**Liquidity Coverage Ratio (%)**			**43.23%**	**34.36%**

(*) The average of last three months' liquidity coverage ratio calculated by monthly simple averages.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

The Bank's liquidity coverage rates for 2015 are presented in the table below.

	Prior Period	Total Unweighted Value (Average) (*)		Total Weighted Value (Average) (*)	
		TL+FC	FC	TL+FC	FC
High-Quality Liquid Assets					
1	Total high-quality liquid assets (HQLA)			57,724	-
Cash Outflows					
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-
3	Stable deposits	-	-	-	-
4	Less stable deposits	-	-	-	-
5	Unsecured wholesale funding, of which:	-	-	-	-
6	Operational deposits	-	-	-	-
7	Non-operational deposits	-	-	-	-
8	Unsecured funding	4,112,767	4,108,482	2,063,047	2,058,761
9	Secured wholesale funding			-	-
10	Other cash outflows of which:	-	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	1,003,858	681,653	1,003,857	681,652
12	Outflows related to restructured financial instruments	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	6,950	4,702	2,780	1,881
14	Other revocable off-balance sheet commitments and contractual obligations	9,771,219	7,686,049	488,560	384,302
15	Other irrevocable or conditionally revocable off-balance sheet obligations	-	-	-	-
16	**Total Cash Outflows**			**3,558,244**	**3,126,596**
Cash Inflows					
17	Secured receivables	-	-	-	-
18	Unsecured receivables	5,666,804	4,506,735	3,638,772	2,752,493
19	Other cash inflows	931,742	919,637	931,742	919,636
20	**Total Cash Inflows**	**6,598,546**	**5,426,372**	**4,570,514**	**3,672,129**
				Max Limit applied values	
21	**Total HQLA**			**57,724**	**-**
22	**Total Net Cash Outflows**			**889,561**	**782,309**
23	**Liquidity Coverage Ratio (%)**			**6.49%**	**-**

(*) The average of last three months' liquidity coverage ratio calculated by monthly simple averages.

With regard of the Liquidity Coverage Ratio, banks disclose the essential issues as follows:

a) Cash inflows and outflows do not have significant fluctuations because the Bank is less complex and cash inflows are higher than cash outflows during the period.

b) The Bank's high quality liquid asset stock primarily consists of cash, the accounts held at CBRT and unencumbered government bonds which are issued by Turkish Treasury.

c) Important funding sources of the Bank are funds from CBRT rediscount loans, short-term loans from domestic and overseas banks, medium and lon-term funds borrowed from international organizations like World Bank, JBIC and funds obtained from capital market transactions by issuing debt securities.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

d) The most important items in derivatives held for hedging purposes are forwards for currency risks and swap transactions within the scope of interest rate risk.

e) The Bank distributes funding sources between CBRT, domestic banks and international development and investment banks carefully and in a balanced manner. The Bank's principle to take first quality collaterals like guarantee letters and aval. To prevent concentration risk the bank monitoring the breakdown of the collaterals taken from banks and made policy limit controls for to not take risks up to 20% of each banks' total cash and non-cash loans.

f) Taking into account the legal and operational liquidity transfer inhibiting factors, the needed funds and the liquidity risk exposure based on the Bank itself, the branches in foreign countries and consolidated partnerships:

None.

g) Taken in the calculation of liquidity coverage ratio but not included in the disclosure template in the second paragraph and the information regarding the other cash inflows and cash outflows items which are thought to be related to the Bank's liquidity profile:

None.

As of 31 December 2016 and 31 December 2015, the table below analyses the assets and liabilities of the Bank into relevant maturity Bankings based on the remaining period at balance sheet date to the contractual maturity dates.

	31 December 2016					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Cash and due from banks	2,501,215	-	-	-	755,984	**3,257,199**
Trading securities	-	-	2,051	8,627	-	**10,678**
Derivative financial instruments	2,184	-	116,419	-	-	**118,603**
Derivative assets held for risk management	115,506	130,830	105,553	108,422	-	**460,311**
Loans and advances to customers	18,576,705	27,633,671	14,468,494	862,127	-	**61,540,997**
Investment securities						
- Available-for-sale	-	-	-	-	21,124	**21,124**
- Held-to-maturity	45,820	52,729	-	-	-	**98,549**
Property and equipment and intangible assets	-	-	-	-	10,968	**10,968**
Investment property	-	-	-	-	2,331	**2,331**
Other assets	-	-	-	-	2,994,808	**2,994,808**
Total assets	**21,241,430**	**27,817,230**	**14,692,517**	**979,176**	**3,417,055**	**68,147,408**
Funds borrowed	12,577,186	25,535,023	6,668,277	7,026,644	-	**51,807,130**
Debt securities in issue	90,558	331,532	6,146,454	1,258,779	-	**7,827,323**
Interbank market deposits	69,000	-	-	-	-	**69,000**
Derivative financial instruments	992	50	40,280	-	-	**41,322**
Derivative liabilities held for risk management	51,133	60,980	38,416	-	-	**150,529**
Other liabilities	8,820	51,857	84,385	110,769	2,777,686	**3,033,517**
Reserve for employee benefits	-	-	-	-	17,050	**17,050**
Total liabilities	**12,797,689**	**25,979,442**	**12,977,812**	**8,396,192**	**2,794,736**	**62,945,871**
Net liquidity gap	**8,443,741**	**1,837,788**	**1,714,705**	**(7,417,016)**	**622,319**	**5,201,537**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

	31 December 2015					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No stated Maturity**	**Total**
Cash and due from banks	146,366	-	-	-	19,263	**165,629**
Trading securities	-	-	1,963	8,630	-	**10,593**
Derivative financial instruments	966	431	-	2,315	-	**3,712**
Derivative assets held for risk management	21,667	10,352	73,119	-	-	**105,138**
Loans and advances to customers	11,338,564	20,309,902	11,276,158	129,116	-	**43,053,740**
Investment securities						
- Available-for-sale	-	-	-	-	18,051	**18,051**
- Held-to-maturity	-	157,332	98,636	-	-	**255,968**
Property and equipment and intangible assets	-	-	-	-	16,222	**16,222**
Other assets	-	-	-	-	663,297	**663,297**
Total assets	**11,507,563**	**20,478,017**	**11,449,876**	**140,061**	**716,833**	**44,292,350**
Funds borrowed	11,275,192	17,296,567	2,906,076	1,632,006	-	**33,109,841**
Debt securities in issue	-	1,448,498	2,169,586	1,470,134	-	**5,088,218**
Interbank market deposits	200,000	-	-	-	-	**200,000**
Derivative financial instruments	236	376	23	-	-	**635**
Derivative liabilities held for risk management	3,800	29,077	9,946	-	-	**42,823**
Other liabilities	9,408	83,703	87,479	-	873,071	**1,053,661**
Reserve for employee benefits	-	-	-	-	15,664	**15,664**
Total liabilities	**11,488,636**	**18,858,221**	**5,173,110**	**3,102,140**	**888,735**	**39,510,842**
Net liquidity gap	**18,927**	**1,619,796**	**6,276,766**	**(2,962,079)**	**(171,902)**	**4,781,508**

The undiscounted cash flows of the financial liabilities of the Bank into relevant maturity Banking based on the remaining period at 31 December 2016 and 31 December 2015 to the contractual maturity dates are presented in the tables below:

	31 December 2016						
	Carrying amount	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No maturity**	**Total**
Funds borrowed	51,807,130	16,268,137	24,417,231	6,524,487	4,714,553	-	51,924,408
Debt securities in issue	7,827,323	91,321	341,104	7,455,884	1,949,643	-	9,837,952
Interbank money market deposits	69,000	69,046	-	-	-	-	69,046
Other financial liabilities[1]	2,830,918	9,812	51,907	124,665	110,771	2,533,763	2,830,918
Total financial liabilities	**62,534,371**	**16,438,316**	**24,810,242**	**14,105,036**	**6,774,967**	**2,533,763**	**64,662,324**

(1) Tax liabilities amounting TL 8,240, funds amounting TL 13 and unearned income accruals and suspend account amounting TL 194,346 are not included in other financial liabilities.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

	31 December 2015						
	Carrying amount	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Funds borrowed	33,109,841	11,261,726	17,258,998	2,891,137	1,748,342	-	**33,160,203**
Debt securities in issue	5,088,218	36,415	1,699,707	2,797,182	1,529,430	-	**6,062,734**
Interbank money market deposits	200,000	200,214	-	-	-	-	**200,214**
Other financial liabilities[1]	960,357	9,644	83,703	87,479	-	779,531	**960,357**
Total financial liabilities	**39,358,416**	**11,507,999**	**19,042,408**	**5,775,798**	**3,277,772**	**779,531**	**40,383,508**

(1) Tax liabilities amounting TL 5,608, funds amounting TL 16 and unearned income accruals and suspend account amounting TL 87,680 are not included in other financial liabilities.

The undiscounted cash inflows and outflows of derivative transactions of the Bank at 31 December 2016 and 31 December 2015 are presented in the tables below:

	31 December 2016				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Derivatives held for trading:					
Foreign exchange derivatives:					
- Outflow	738,699	61,694	1,966,671	1,652,588	4,419,652
- Inflow	743,628	97,174	1,868,956	1,455,170	4,164,928
Interest rate derivatives:					
- Outflow	2,533	681,992	--	--	684,525
- Inflow	4,310	678,869	--	--	683,179
Derivatives held for risk management					
Foreign exchange derivatives:					
- Outflow	947,261	2,582,796	458,332	--	3,988,389
- Inflow	1,047,516	2,742,080	536,349	--	4,325,945
Interest rate derivatives:					
- Outflow	32,312	277,241	4,929,024	1,991,787	7,230,364
- Inflow	33,117	282,301	4,807,017	1,949,643	7,072,078
Total outflow	**1,720,805**	**3,603,723**	**7,354,027**	**3,644,375**	**16,322,930**
Total inflow	**1,828,571**	**3,800,424**	**7,212,322**	**3,404,813**	**16,246,130**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(f) Liquidity risk *(continued)*

	31 December 2015				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Derivatives held for trading:					
Foreign exchange derivatives:					
- Outflow	223,348	97,069	1,032,440	804,199	2,157,056
- Inflow	226,759	106,882	1,146,492	781,217	2,261,350
Interest rate derivatives:					
- Outflow	44,079	265,911	-	-	309,990
- Inflow	45,099	264,642	-	-	309,741
Derivatives held for risk management					
Foreign exchange derivatives:					
- Outflow	945,945	1,373,971	-	-	2,319,916
- Inflow	947,692	1,283,220	-	-	2,230,912
Interest rate derivatives:					
- Outflow	-	1,622,008	1,621,432	-	3,243,440
- Inflow	-	1,639,056	2,038,056	-	3,677,112
Total outflow	**1,213,372**	**3,358,959**	**2,653,872**	**804,199**	**8,030,402**
Total inflow	**1,219,550**	**3,293,800**	**3,184,548**	**781,217**	**8,479,115**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(g) Derivative financial instruments held for hedging purposes

Starting from 1 January 2013, the Bank has hedged the possible fair value effects of changes in libor interest rates on 5.375% and 5.875% fixed interest rate debt securities amounting USD 500 million with maturity 5 years and USD 610 million with maturity 7 years funding by using interest rate swaps. USD debt securities issued in total amount to USD 750 million with 5.875% fixed interest rate and maturity 7 years by the Bank. Remaining risk amount to USD 140 million hedged with cross currency swaps in year 2012 and this remaining portion is subject to fair value and cash flow hedge accounting starting from 13 August 2015. Starting from September 2014, the Bank issued 5% fixed interest rate debt securities with seven years maturity amounting USD 500 million and they are not subject to fair value hedge accounting.

In addition, the fair value changes resulting from the movements of the libor interest rates of the treasury bills with 5.375% fixed interest rate and USD 500 million five-year treasury bills in February 2016 and October 2016 were calculated by using interest rate swap transactions in February 2016 and October 2016 with fair value hedge accounting.

Starting from 31 May 2014, the Bank hedged the possible fair value difference risk of CBRT Rediscount loans amounting to TL 3,276,649 related to interest rate changes with forward transactions by using fair value hedge accounting. Changes in the fair value of forward transactions related to TL interest rate risks hedges fair value risk of the TL denominated CBRT Rediscount Loans related to changes in interest rates.

Fair value hedge accounting

Starting from 1 January 2013, the Bank uses "Fair value hedge accounting".

The impact of application fair value hedge accounting is summarised below:

31 December 2016				
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Net fair value of the Asset**	**Liability**
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	65,274	149,014
Forward Transactions	Originated CBT-Rediscount TL Loans	Interest rate risk	354,757	1,515

31 December 2015				
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Net fair value of the Asset**	**Liability**
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	50,690	9,969
Forward Transactions	Originated CBT-Rediscount TL Loans	Interest rate risk	25,270	32,854

The Bank evaluates the effectiveness of the hedge accounting at initial date and at every reporting period. Effectiveness test is performed by using "Dollar off-set method". The Bank continues the hedge accounting if the effectiveness is between 80% and 125%.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(g) Derivative financial instruments held for hedging purposes *(continued)*

***Fair value hedge accounting** (continued)*

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in "Trading gains and losses on derivative financial instruments" account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the profit and loss accounts

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the fair value hedge accounting in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way in accordance with the Bank's risk management policies. Effectiveness tests were chosen among methods allowed within the context of IAS 39 in accordance with the Bank's risk management policies. The Bank's assumptions, which used for determining fair values of derivative instruments, were used while calculating fair value of hedged items on the effectiveness tests. The effectiveness tests are performed and effectiveness of risk relations are measured on a monthly basis. The effectiveness tests are performed rewardingly at the beginning of risk relations. If the underlying hedge does not conform to the accounting requirements (out of 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, in the context of the fair value hedge, adjustments on the carrying value of the hedged item is reflected on the on "Derivative Financial Transactions Gains/Losses" accounts by using straight line method of amortization.

Cash Flow hedge accounting

Starting from 13 August 2015, the Bank uses "Cash flow hedge accounting".

The impact of application cash flow hedge accounting is summarised below:

31 December 2016					
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Fair value of the hedge item**	**Net fair value of the**	
				Asset	**Liability**
Cross currency swap	Fixed interest rate US dollar debt securities	Currency risk	(434)	40,280	-

31 December 2015					
Type of hedging instrument	**Hedge item (asset and liability)**	**Nature of hedge risks**	**Fair value of the hedge item**	**Net fair value of the**	
				Asset	**Liability**
Cross currency swap	Fixed interest rate US dollar debt securities	Currency risk	(333)	29,178	-

4 FINANCIAL RISK MANAGEMENT *(continued)*

(g) Derivative financial instruments held for hedging purposes *(continued)*

Cash Flow hedge accounting *(continued)*

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the cash flow hedge accounting application in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with the Bank's risk management policies. The effectiveness tests are performed on a monthly basis. If the underlying hedge does not conform to the cash flow hedge accounting requirements (out of 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur the net cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

(h) Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

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

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

(i) Financial assets

The fair values of certain financial assets carried at cost or amortised cost, including cash and due from banks (including receivables from CBRT) are considered to approximate their respective carrying values due to their short-term nature.

The fair value of investment securities has been determined based on bid market prices at balance sheet dates.

Loans and advances to customers are net of provisions for impairment.

The estimated fair value of loans and advances to customers represents the discounted amount, at current market rates, of future cash flows expected to be received.

The fair value of other financial assets is also considered to approximate their respective carrying values due to their nature.

(ii) Financial liabilities

The fair value of funds borrowed is based on market prices or are based on discounted cash flows using current interest rates prevailing at the reporting date.

The fair value of other financial liabilities is also considered to approximate their respective carrying values due to their nature.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(h) Fair value of financial instruments *(continued)*

(iii) Derivative financial instruments

The fair values of foreign exchange and interest rate swaps have been estimated based on quoted market rates prevailing at the reporting date.

The following table summarises the carrying amounts and fair values of those significant financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and due from banks	3,257,199	3,257,199	165,629	165,629
Investment securities				
- Held to maturity	98,549	100,353	255,968	262,125
- Available for sale	4,879[1]	4,879	4,370[1]	4,370
Loans and advances to customers[2]	61,540,997	62,484,286	43,053,740	44,443,714
Financial liabilities:				
Funds borrowed	51,807,130	53,509,041	33,109,841	33,572,245
Debt securities in issue	7,827,323	8,063,949	5,088,218	6,062,734
Interbank money market deposits	69,000	69,000	200,000	200,000

(1) Garanti Faktoring AŞ shares amounting to TL 16,245 are not included (31 December 2015: TL 13,681).

(2) Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.

Fair values of held to maturity investments are determined as Level 1 and fair values of loans and receivables are determined as Level 2.

Fair values of funds borrowed and debt securities are determined as Level 2.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(h) Fair value of financial instruments *(continued)*

The following table summarises the fair values of those financial assets and liabilities presented on the Bank's statement of financial position based on the hierarchy of valuation technique as of 31 December 2016 and 31 December 2015.

31 December 2016	**Level 1[(1)]**	**Level 2[(2)]**	**Level 3[(3)]**	**Total**
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	10,678	-	-	10,678
- Derivatives	-	118,603	-	118,603
Derivative asset held for risk management	-	460,311	-	460,311
Available-for-sale financial assets				
- Investment securities - equity[(4)]	16,245	-	-	16,245
Total assets	**26,923**	**578,914**	**-**	**605,837**
Financial liabilities at fair value through profit and loss				
Financial liabilities held for trading				
- Derivatives	-	41,322	-	41,322
Derivative asset held for risk management	-	150,529	-	150,529
Total liabilities	**-**	**191,851**	**-**	**191,851**

(1) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed equity securities and debt instruments actively traded on exchanges.

(2) Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.

(3) Fair values are calculated with unobservable inputs for equity instruments.

(4) Unlisted equity securities which are accounted with their cost amount to TL 4,879 are excluded.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(h) Fair value of financial instruments *(continued)*

31 December 2015	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	10,593	-	-	10,593
- Derivatives	-	3,712	-	3,712
Derivative asset held for risk management	-	105,138	-	105,138
Available-for-sale financial assets				
- Investment securities - equity[(4)]	13,681	-	-	13,681
Total assets	**24,274**	**108,850**	**-**	**133,124**
Financial liabilities at fair value through profit and loss				
Financial liabilities held for trading				
- Derivatives	-	635	-	635
Derivative asset held for risk management	-	42,823	-	42,823
Total liabilities	**-**	**43,458**	**-**	**43,458**

(1) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed equity securities and debt instruments actively traded on exchanges.

(2) Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.

(3) Fair values are calculated with unobservable inputs for equity instruments.

(4) Unlisted equity securities which are accounted with their cost amount to TL 4,370 are excluded.

(i) Capital management

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

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

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

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

4 FINANCIAL RISK MANAGEMENT *(continued)*

(i) Capital management *(continued)*

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

	31 December 2016	31 December 2015[1]
Tier I capital	5,196,224	4,815,117
Tier II capital	130,214	130,214
Total regulatory capital	**5,326,438**	**4,945,331**
Amount subject to credit risk	38,189,227	25,124,025
Amount subject to market risk	446,963	166,538
Amount subject to operational risk	1,075,641	826,100
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks (%)	**13.41**	**18.94**
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks (%)	**13.09**	**18.44**

[1] Calculation of regulatory capital is changed effective from 1 January 2016 as per the Regulation on Equity of Banks published in the official Gazette no. 28756 dated 5 September 2013.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances to customers

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques such as discounted cash flow models. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

6 CASH AND DUE FROM BANKS

	31 December 2016	31 December 2015
Cash funds:		
Cash on hand	36	29
	36	**29**
Current accounts and demand deposits:		
Central Bank of Republic of Turkey (CBRT)	370,955	1,198
Foreign banks	1,095,036	48,890
	1,465,991	**50,088**
Time deposits:		
CBRT	-	-
Domestic banks	1,423,012	115,512
	1,423,012	**115,512**
Interbank money market placements	**368,160**	**-**
Total cash and due from banks	**3,257,199**	**165,629**

Cash and cash equivalents included in the statements of cash flows for the period ended 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Cash and due from banks	3,257,199	165,629
Less: interest accruals	-	-
Cash and cash equivalents	**3,257,199**	**165,629**

Cash and cash equivalents are mainly composed of bank deposits as of 31 December 2016 and 31 December 2015.

7 TRADING SECURITIES

	31 December 2016	31 December 2015
Government bonds	10,678	10,593
Total	**10,678**	**10,593**

As of 31 December 2016, The Bank have securities subject to repurchase transactions amounting to TL 4,242 (31 December 2015: TL 6,986).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

8 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank utilises the following derivative instruments:

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of principal as well. The Bank's "credit risks" represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (as assets) or unfavourable (as liabilities) as a result of fluctuations in foreign exchange rates and interest rates. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held as of 31 December 2016 and 31 December 2015 are set out in the following table:

	31 December 2016		**31 December 2015**	
	Fair value		**Fair value**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate and currency swaps purchases and sales	155	-	1	(248)
Forward purchases and sales	2,025	-	413	(308)
Foreign currency swaps purchases and sales	-	(217)	982	(79)
Cross currency and basis swaps purchases and sales	116,419	(41,101)	2,316	-
Option purchases and sales	4	(4)	-	-
Total derivative assets/(liabilities)	**118,603**	**(41,322)**	**3,712**	**(635)**

Even though certain derivative transactions, while providing effective economic hedges under the Bank's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading. Hedge accounting is explained in detail in Note 4.

The notional amounts of derivative transactions are explained in detail in Note 24.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

9 LOANS AND ADVANCES TO CUSTOMERS

The Bank follows loans and advances to customers under one class as corporate loans; the classifications in the table below mainly refer to lending programs of the Bank to corporate customers;

	31 December 2016	31 December 2015
Short-term		
Financial institutions	4,560,094	3,866,424
Export guaranteed loans	1,231,798	1,424,433
Specialised loans	184,787	179,416
Discount loans	32,666,389	22,393,234
Other guaranteed loans	502	196
	38,643,570	**27,863,703**
Medium and long-term		
Financial institutions	2,077,415	1,414,854
Export guaranteed loans	14,469,314	9,539,491
Foreign country loans (political risks)	1,734,453	756,416
Specialised loans	453,389	400,847
Export guaranteed investment loans	3,392,925	2,710,263
Other	576,780	415,336
	22,704,276	**15,237,207**
Performing loans	**61,347,846**	**43,100,910**
Loans under close monitoring	232,830	81,812
Impaired loans and advances	233,087	131,688
Gross loans and advances to customers	**61,813,763**	**43,314,410**
Allowance for loan losses	(272,766)	(260,670)
Net loans and advances to customers	**61,540,997**	**43,053,740**

The Bank provides impairment provision for non-performing loans amounting to TL 233,087 (31 December 2015: TL 131,688) comprising 0.38% (31 December 2015: 0.31%) of the total loans outstanding at 31 December 2016. The Bank also provided an additional impairment provision amounting to TL 39,679 (31 December 2015: TL 128,982) for other components of the loan portfolio to cover the incurred of loss present in the lending relationship but not yet identified with a specific loan.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

9 LOANS AND ADVANCES TO CUSTOMERS *(continued)*

Movements in the provision for impairment losses for the years ended 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Balance at the beginning of the period	**260,670**	**256,460**
Recoveries and reversals	(2,155)	(4,990)
Provision for the period	14,251	9,200
Balance at the end of the period	**272,766**	**260,670**

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

	31 December 2016	31 December 2015
Public sector	3,707,478	2,150,857
Private sector	57,833,519	41,163,553
	61,540,997	**43,314,410**

10 INVESTMENT SECURITIES

(a) Available-for-sale securities:

	31 December 2016	31 December 2015
Equity securities		
- Listed	16,245	13,681
- Unlisted	4,879	4,370
Total available-for-sale securities	**21,124**	**18,051**

There are no securities pledged under repurchase agreements or pledged as collateral with financial institutions.

Unrealised gain and losses arising from changes in the fair value of securities classified as "available-for-sale" are recognised in other comprehensive income unless there is objective evidence that the asset is impaired in which case they are charged to the income statement.

The breakdown of available-for-sale equity securities at 31 December 2016 and 31 December 2015 are as follows:

	Share %		Carrying amount		
Equity securities	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**Business**
Garanti Faktoring AŞ	9.78	9.78	16,245	13,681	Factoring
Kredi Garanti Fonu AŞ	1.69	1.75	4,719	4,210	Financial services
Borsa İstanbul	-	-	160	160	Financial services
			21,124	**18,051**	

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

10 INVESTMENT SECURITIES *(continued)*

(b) Held-to-maturity securities:

	31 December 2016	31 December 2015
Debt securities		
- Government bonds	98,549	255,968
Total held-to-maturity securities	**98,549**	**255,968**

As of 31 December 2016, government bonds and treasury bills amounting to TL 15,589 (31 December 2015: TL 12,258) have been pledged as collateral with the CBRT and Borsa İstanbul AŞ-Settlement and Custody Bank.

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

	31 December 2016	31 December 2015
Balance at 1 January	**255,968**	**296,954**
Purchases	18,250	160,054
Redemptions	(172,196)	(204,489)
Foreign exchange difference	-	5,613
Interest income accruals	(3,473)	(2,164)
Total held-to-maturity securities at the end of the year	**98,549**	**255,968**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

11 PROPERTY AND EQUIPMENT

	Buildings	Leased Assets	Vehicles	Other tangible assets	Leasehold Improvements	Total
Cost						
Opening balance, 1 January 2015	9,619	287	2,956	9,402	14,257	36,521
Additions	-	-	-	1,641	-	1,641
Disposals	(3,483)	(160)	-	(18)	-	(3,661)
Transfers	-	-	-	-	-	-
Closing balance, 31 December 2015	**6,136**	**127**	**2,956**	**11,025**	**14,257**	**34,501**
Accumulated depreciation:						
Opening balance, 1 January 2015	5,036	287	1,302	5,498	5,827	17,950
Additions	140		571	1,099	3,064	4,874
Disposals	(2,141)	(160)		(16)		(2,317)
Transfers	-	-	-	-	-	-
Closing balance, 31 December 2015	**3,035**	**127**	**1,873**	**6,581**	**8,891**	**20,507**
Cost						
Opening balance, 1 January 2016	6,136	127	2,956	11,025	14,257	34,501
Additions	-	-	423	1,168	-	1,591
Disposals	-	-	-	(170)	-	(170)
Transfers(*)	(4,566)	-	-	--	-	(4,566)
Closing balance, 31 December 2016	**1,570**	**127**	**3,379**	**12,023**	**14,257**	**31,356**
Accumulated depreciation:						
Opening balance, 1 January 2016	3,035	**127**	1,873	6,581	8,891	20,507
Additions	125	-	605	1,135	3,180	5,045
Disposals	-	-	-	(170)	-	(170)
Transfers(*)	(2,235)	-	-	-	-	(2,235)
Closing balance, 31 December 2016	**925**	**127**	**2,478**	**7,546**	**12,071**	**23,147**
As at 31 December 2015 net carrying value	**3,101**	**-**	**1,083**	**4,444**	**5,366**	**13,994**
As at 31 December 2016, net carrying value	**645**	**-**	**901**	**4,477**	**2,186**	**8,209**

(*) Former Istanbul service building which is accounted in the Bank's tangible assets has been leased to Investment Support and Promotion Agency of Turkey and it has been reclassified to investment properties in accordance with IAS 40.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

12 INTANGIBLE ASSETS

	Intangible assets
Cost	
Opening balance, 1 January 2015	4,008
Additions	903
Disposals	-
Closing balance, 31 December 2015	**4,911**
Accumulated amortisation:	
Opening balance, 1 January 2015	(2,135)
Additions	(548)
Disposals	-
Closing balance, 31 December 2015	**(2,683)**
Cost	
Opening balance, 1 January 2016	4,911
Additions	1,195
Disposals	-
Closing balance, 31 December 2016	**6,106**
Accumulated amortisation:	
Opening balance, 1 January 2016	(2,683)
Additions	(664)
Disposals	-
Closing balance, 31 December 2016	**(3,347)**
As at 31 December 2015, net carrying value	**2,228**
As at 31 December 2016, net carrying value	**2,759**

13 INVESTMENT PROPERTY

As of 31 December 2016, The Bank has net investment property amounting to TL 2,331 (31 December 2015: None).

Istanbul service building which is previously accounted as tangible asset is classified to investment property account in accordance with IAS 40 Investment Property after the building is leased to Investment Support and Promotion Agency of Turkey.

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

14 OTHER ASSETS

	31 December 2016	31 December 2015
Financial assets		
Guarantees given	2,080,729	543,715
Upfront fees paid	508,120	93,174
Notes receivable	11,796	9,858
Receivables from Reassurance Companies	11,682	6,959
Receivables from banks	-	14,183
Other	14,321	9,591
	2,626,648	**677,480**
Provision for impairment on other assets	-	(14,183)
	2,626,648	**663,297**

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS

	31 December 2016	31 December 2015
Interbank money market deposits – TL	**69,000**	**200,000**
Domestic banks	33,426,554	23,759,796
Foreign banks	18,380,576	9,350,045
Funds borrowed	**51,807,130**	**33,109,841**
Funds borrowed interbank money market deposits total	**51,876,130**	**33,309,841**

Interest rate for interbank money market deposits are 8.05% (31 December 2015: 8.84% - 14.17%) and the maturity date of such deposits is 2 January 2017 (31 December 2015: 1 January 2016).

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

The breakdown of funds borrowed as of 31 December 2016 and 31 December 2015 is as follows:

31 December 2016	**Interest rate**	**Original currency amount** *(thousands)*	**Original currency**	**TL**	**Maturity date** *(year)*
Due to Central Bank	(LIBOR/EURIBOR + %0)			**32,184,331**	
CBRT Loan		5,362,085	USD	18,878,829	(1)
CBRT Loan		3,589,474	EUR	13,281,053	(1)
CBRT Loan		5,658	GBP	24,448	(1)
Due to IFIs	(LIBOR/EURIBOR + %0,01 - %1,55)			**4,265,771**	
World Bank (EFIL) Loans		179,215	USD	630,982	01.03.2038
World Bank (EFIL) Loans		47,741	EUR	176,643	01.03.2038
European Investment Bank		103,950	USD	365,987	16.01.2024-29.07.2024
European Investment Bank		573,597	EUR	2,122,308	17.12.2021-29.07.2024
Counsel of Europe Development Bank		100,000	EUR	370,000	26.10.2022-16.05.2023
Islamic Development Bank		170,374	USD	599,851	14.04.2026
Due to Commercial Banks	(LIBOR/EURIBOR/TIBOR + %1,03 - %2,97)			**15,268,743**	
ING Financial Services Plc		200,547	EUR	742,023	11.11.2020
ING Bank N.V.		50,344	EUR	186,274	27.01.2017
ABC International		77,534	EUR	286,877	13.01.2017-24.05.2017
ABC International		15,060	USD	53,024	07.11.2017
Standard Chartered		100,287	USD	353,092	02.05.2017-22.05.2017
Commercial Bank of Qatar		70,583	USD	248,508	02.05.2017-20.11.2017
Vida Finance Plc		23,816,778	JPY	716,147	17.06.2019
Credit Europe Bank N.V.		30,011	EUR	111,042	02.06.2017-28.06.2017
İşbank AG		10,159	EUR	37,589	05.04.2017-03.05.2017
Emirates NBD		22,640	USD	79,712	23.02.2017
Emirates NBD		22,511	EUR	83,291	15.06.2017
ITFC		386,389	USD	1,360,399	06.06.2017
HSBC		102,935	USD	362,412	23.01.2017-18.12.2017
HSBC		23,950	EUR	88,614	23.01.2017-10.05.2017
Doha Bank		40,227	USD	141,630	19.01.2017-11.07.2017
Mizuho Corporate Bank		150,287	EUR	556,064	26.05.2017-07.09.2017
lNG Bank DIBA		107,408	EUR	397,411	04.12.2026
Bank of Tokyo Mitsubishi		134,203	EUR	496,553	01.06.2017-02.11.2017
Bank of Tokyo Mitsubishi		16,547	USD	58,258	25.08.2017
Citibank Europe Plc		115,335	USD	406,070	25.01.2017-15.11.2017
Garanti International		30,187	EUR	111,692	10.08.2017
Syndicated loan with MIGA Guarantee		733,300	USD	2,581,804	28.3.2025-06.11.2021
Syndicated loan with MIGA Guarantee		394,741	EUR	1,460,540	28.3.2025-06.11.2021
Syndicated loan		146,321	USD	515,168	20.03.2017-27.07.2018
Syndicated loan		1,036,365	EUR	3,834,551	20.03.2017-27.07.2018
Others	LIBOR+%0.5			**88,285**	
Subordinated loan		25,075	USD	88,285	15.04.2018
Total funds borrowed		**14,714,590**(2)		**51,807,130**	

(1) CBRT loans are rediscount loans extended by CBRT, having wide range of maturity dates.

(2) Balance is denominated by USD.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

31 December 2015	Interest rate	Original currency amount *(thousands)*	Original currency	TL	Maturity date *(year)*
Due to Central Bank	(LIBOR/EURIBOR + %0)			**22,588,506**	
CBRT Loan		5,260,787	USD	15,325,724	(1)
CBRT Loan		2,280,839	EUR	7,257,858	(1)
CBRT Loan		1,140	GBP	4,924	(1)
Due to IFIs	(LIBOR/EURIBOR + %0,01 - %1,859)			**2,395,830**	
World Bank (EFIL) Loans		187,107	USD	545,081	01.03.2038
World Bank (EFIL) Loans		49,981	EUR	159,045	01.03.2038
European Investment Bank		111,398	USD	324,524	16.01.2024-29.07.2024
European Investment Bank		379,644	EUR	1,208,067	17.12.2021-29.07.2024
Counsel of Europe Development Bank		50,003	EUR	159,113	26.10.2022
Due to Commercial Banks	(LIBOR/EURIBOR + %0,6 - %2,60)			**8,003,914**	
ING Financial Services Plc		200,547	EUR	638,160	11.11.2020
ABC International		97,633	EUR	310,679	13.01.2016-11.05.2016
ABC International		37,092	USD	108,057	20.10.2016-15.12.2016
ICBC		50,344	USD	146,661	09.08.2016-16.08.2016
Standard Chartered		100,231	USD	291,992	03.05.2016-23.05.2016
Commercial Bank of Qatar		44,546	USD	129,771	16.05.2016-21.06.2016
Garanti International N.V.		10,021	USD	29,192	18.05.2016
Credit Europe Bank N.V.		35,025	EUR	111,455	24.05.2016
Emirates NBD		25,036	USD	72,936	31.05.2016
HSBC		45,679	USD	133,073	08.06.2016-07.11.2016
Doha Bank		75,117	USD	218,830	20.01.2016-18.11.2016
Mizuho Corporate Bank		150,273	EUR	478,185	27.05.2016-02.09.2016
lNG Bank N.V.		50,035	EUR	159,217	07.06.2016
Bank of Tokyo Mitsubishi		100,140	EUR	318,655	03.11.2016
Citibank Europe Plc		84,074	USD	244,923	04.01.2016-15.12.2016
ING Bank A.Ş.		7,500	EUR	23,866	18.01.2016
Türkiye Sınai Kalkınma Bankası		30,008	EUR	95,488	18.01.2016
Türkiye Kalkınma Bankası		50,111	TL	50,111	11.01.2016
Akbank		40,002	EUR	127,289	18.01.2016
Syndicated loan		407,531	USD	1,187,219	02.03.2016-28.03.2025
Syndicated loan		982,738	EUR	3,128,155	02.03.2016-28.03.2025
Others	LIBOR+%0.5			**121,591**	
Subordinated loan		41,738	USD	121,591	15.04.2018
Total funds borrowed		**11,365,454**[2]		**33,109,841**	

(1) CBRT loans are rediscount loans extended by CBRT, having wide range of maturity dates.

(2) Balance is denominated by USD.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

The repayment of the funds borrowed were as follows during 2016:

	FX Type	Original repayment amount	Date
Citibank	USD	10,000,000	04.01.2016
European Investment Bank	USD	1,914,558	13.01.2016
ABC International Bank	EUR	41,949,153	13.01.2016
Doha Bank	USD	15,000,000	20.01.2016
European Investment Bank	USD	1,903,235	10.02.2016
ABC International Bank	EUR	22,447,183	19.02.2016
EFIL IV Loan	USD	4,148,051	01.03.2016
EFIL IV Euro Loan	EUR	1,109,760	01.03.2016
Syndicated loan	EUR	499,000,000	02.03.2016
Syndicated loan	USD	87,000,000	02.03.2016
European Investment Bank	EUR	1,470,588	04.04.2016
Subortinated Loans	USD	8,333,000	15.04.2016
Citibank	USD	24,000,000	03.05.2016
Standard Chartered Bank	USD	50,000,000	03.05.2016
ABC International Bank	EUR	33,000,000	11.05.2016
Commercial Bank of Qatar	USD	14,500,000	16.05.2016
Garantibank International NV	USD	10,000,000	18.05.2016
Standard Chartered Bank	USD	50,000,000	23.05.2016
Doha Bank	USD	25,000,000	24.05.2016
Credit Europe Bank	EUR	35,000,000	24.05.2016
Mizuho Bank Ltd.	EUR	50,000,000	27.05.2016
Emirates NBD	USD	25,000,000	31.05.2016
ING Bank NV	EUR	50,000,000	07.06.2016
HSBC Bank	USD	15,000,000	08.06.2016
Doha Bank	USD	25,000,000	17.06.2016
European Investment Bank	EUR	1,470,588	17.06.2016
Commercial Bank of Qatar	USD	11,867,230	21.06.2016
ITFC	USD	350,000,000	11.07.2016
European Investment Bank	USD	1,914,559	13.07.2016
Syndicated loan	USD	51,000,000	18.07.2016
Syndicated loan	EUR	229,909,091	18.07.2016
Commercial Bank of Qatar	USD	10,000,000	19.07.2016
Citibank	USD	10,000,000	25.07.2016
Commercial Bank of Qatar	USD	18,000,000	27.07.2016
Commercial Bank of Qatar	USD	7,000,000	01.08.2016
ICBC London	USD	38,649,912	09.08.2016
European Investment Bank	USD	1,903,235	10.08.2016
ICBC London	USD	11,350,088	16.08.2016
EFIL IV Loan	USD	4,148,051	01.09.2016
EFIL IV Euro Loan	EUR	1,109,760	01.09.2016
HSBC London	USD	15,183,774	01.09.2016
Mizuho Bank Ltd.	EUR	100,000,000	02.09.2016
Miga guaranteed syndicated loan	USD	10,416,667	28.09.2016
Miga guaranteed syndicated loan	EUR	5,555,556	28.09.2016
European Investment Bank	EUR	1,470,588	03.10.2016
Subortinated Loans	USD	8,333,000	14.10.2016
ITFC	USD	50,000,000	18.10.2016
ABC International Bank	USD	15,000,000	20.10.2016
Bank of Tokyo Mitsubishi Turkey	EUR	100,000,000	03.11.2016
Citibank	USD	20,000,000	04.11.2016
HSBC London	USD	15,179,311	07.11.2016
ABC International Bank	USD	12,000,000	16.11.2016
Doha Bank	USD	10,000,000	21.11.2016
Citibank	USD	20,000,000	15.12.2016
ABC International Bank	USD	10,000,000	15.12.2016
European Investment Bank	EUR	1,470,588	19.12.2016

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS *(continued)*

Debt securities in issue

Information regarding securities issued	**Current Period 31.12.2016**	**Prior Period 31.12.2015**
Securities Issued	7,921,800	5,098,100
Discount on Issuance of Securities (-)	200,721	64,862
Bond Interest Accrual	106,244	54,980
Total	**7,827,323**	**5,088,218**

In April 2012, the Bank issued bonds amounting USD 500 million (TL 1,760,400). The bond is subject to annual fixed interest payment of 5.875% every six months and the total maturity is seven years.

In October 2012, the Bank issued bonds amounting USD 250 million (TL 880,200). The bond is subject to annual fixed interest payment of 5.875% every six months and the total maturity is seven years.

In September 2014, the Bank issued bonds amounting USD 500 million (TL (1,760,400). The bond is subject to annual fixed interest payment of 5.000% every six months and the total maturity is seven years.

In February 2016, the Bank issued bonds amounting USD 500 million (TL 1,760,400). The bond is subject to annual fixed interest payment of 5.375% every six months and the total maturity is five years.

In October 2016, the Bank issued bonds amounting USD 500 million (TL 1,760,400). The bond is subject to annual fixed interest payment of 5.375% every six months and the total maturity is seven years.

16 TAXATION

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3rd Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states "The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520", the exemption from Corporation Tax continues. Accordingly, current and deferred taxes are not recognised in these financial statements.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

17 OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities are as follows:

	31 December 2016	31 December 2015
Financial liabilities		
Guarantees received[(1)]	2,715,854	876,404
Positive price difference on bonds issued[(3)]	200,721	36,084
Tax liability	8,240	5,608
Funds	13	16
Turkish Treasury-current account-Iraq Credit	-	151
Other	11,333	61,308
Non-financial liabilities		
Insurance technical provisions	38,331	27,825
Dividend pay liabilities	22,300	18,269
Vacation pay liability[(2)]	12,033	11,020
Other	24,692	16,976
	3,033,517	**1,053,661**

(1) Guarantees received refers to cash guarantees obtained in relation to Rediscount Credits, which has increased in line with the increase in the amount of Rediscount Credits.

(2) TL 1,013 of vacation pay liability provision is provided during 2016 (31 December 2015: TL 1,097).

(3) In addition to the bond issuance transactions, a positive price differences have come up. The transaction has been divided into instalments until the maturity date according to the principle of periodicity in accounting and the sum corresponding to each month is accounted for by reducing expense rediscount.

The movements for insurance technical provision are as follows:

	31 December 2016	31 December 2015
1 January	27,825	17,012
Paid claims	4,813	2,364
Increase	5,693	8,449
Total	**38,331**	**27,825**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

18 RETIREMENT BENEFIT OBLIGATIONS

As a result of IAS 19 (2011), the Bank started to recognise all actuarial gains and losses immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

Actuarial gains/losses, calculated as TL 68 in relation to the reserve for employee termination benefits, are shown under shareholders’ equity and as TL 3,569 in relation to the current service cost and interest expense, are recognised in other comprehensive income in accordance with the change in IAS 19 (2011).

IAS 19 (2011) “Employment Benefits” requires actuarial valuation methods to be developed to estimate the enterprise’s obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2016 and 31 December 2015.

	31 December 2016	**31 December 2015**
Discount rate (%)	1.89	2.79
Rate to estimate the probability of retirement (%)	0.98	0.98

Movement in the reserve for employment termination benefits for the period ended 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	**31 December 2015**
1 January	15,664	14,301
Current service cost	1,766	1,477
Interest expense	1,803	1,626
Actuarial losses	(68)	102
Payments during the period	(2,115)	(1,842)
Total	**17,050**	**15,664**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

19 SHARE CAPITAL

The historical paid in share capital of the Bank is TL 3,700,000 (31 December 2015: TL 2,500,000) and consists of 3.7 billion (31 December 2015: 2.5 billion) authorised shares with a nominal value of TL 1 each. With the decision made at the Bank's Ordinary General Meeting held on 22 February 2016 and in compliance with the permissions of Banking Regulation and Supervision Agency (BRSA) dated on 2 May 2016, the Bank's paid-in-capital has been increased from TL 2,500,000 to TL 3,700,000 and the increase of TL 1,200,000 originates from internal sources. With the resolution made by the Bank's Board of Directors on 22 February 2016, the amount of TL 3,761 dividend payment has been made by the Bank (31 December 2015: TL 21,350).

The Bank has decided to use the capital stock system that is registered in the Bank in the extraordinary general meeting that took place on 27 January 2017. The decision has been submitted to the trade register and has been published on Turkey Trade Registry Gazette on 30 January 2017, Numbered 9252.

	31 December 2016	31 December 2015
Share capital - historical cost	3,700,000	2,500,000
Adjustment to share capital	812,518	812,518
Total paid in share capital	**4,512,518**	**3,312,518**

The Bank is fully owned by the Turkish Treasury.

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2005 after elimination of the accumulated deficit. Other reserve is amounting to TL 22,743 (31 December 2015: TL 22,743).

The legal reserves amounting to TL 328,050 (31 December 2015: TL 302,905) consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code and in accordance with the Articles of Association of the Bank, the Bank is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

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

b) Second legal reserve, appropriated at the rate of 10% of the distribution of second dividend, in excess of the first legal reserve, appropriated at a rate of 5% and first dividend, appropriated at a rate of 8%.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

As at 31 December 2016, such gains/ (losses) recognised under equity in fair value reserves amounted to TL 11,960 (31 December 2015: TL 8,886).

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

20 NET INTEREST INCOME

	31 December 2016	31 December 2015
Interest income on:		
Interest on loans and advances to customers	1,570,550	1,134,114
Interest on deposits with banks	38,296	32,433
Interest on held to maturity investments	24,019	22,901
Interest on interbank money market placements	8,286	2,005
Interest on trading financial assets	915	1,698
Other interest income	988	715
Total interest income	**1,643,054**	**1,193,866**
Interest expense on:		
Interest on funds borrowed	(398,351)	(191,166)
Interest on debt securities in issue	(369,261)	(271,867)
Other interest expenses	(16,444)	(19,595)
Total interest expense	**(784,056)**	**(482,628)**
Net interest income	**858,998**	**711,238**

21 FOREIGN EXCHANGE GAINS AND LOSSES

	31 December 2016	31 December 2015
Foreign exchange gain	12,467,866	6,850,510
Foreign exchange losses	(13,468,487)	(7,551,346)
Net foreign exchange gains/(losses)	**(1,000,621)**	**(700,836)**

22 GAINS AND LOSSES ON FINANCIAL INSTRUMENTS CLASSIFIED AS HELD FOR TRADING

	31 December 2016	31 December 2015
Derivative trading income [(*)]	1,212,604	718,499
Derivative trading expenses [(*)]	(550,462)	(162,140)
Trading income	9	74
Trading expenses	(20)	(2,601)
	662,131	**553,832**

[(*)] Derivative trading income/expense consist of fair value hedge valuation differences amounting TL 168,936 (31 December 2015: TL (1,863)).

23 OTHER OPERATING INCOME

	31 December 2016	31 December 2015
Insurance premium income	112,328	88,850
Commission from reinsurance companies	21,503	22,368
Other	7,162	9,494
Total	**140,993**	**120,712**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

24 OPERATING EXPENSES

	31 December 2016	31 December 2015
Staff costs	106,268	88,894
Premiums paid to reinsurance companies	58,064	50,860
BRSA contribution expense	10,241	6,666
Research expenses	8,652	6,637
KOSGEB fee [(1)]	8,598	9,988
Taxes and duties expenses	5,882	1,794
Depreciation and amortisation charges	5,709	5,422
Rent expenses	5,191	4,620
Employment termination benefits and unused vacation	1,453	1,262
Other	31,878	28,985
Total	**241,936**	**205,128**

[(1)] As the Bank's more than 50% of the paid-in share capital is owned by the government entities, the Bank is obliged to pay annual fee at a rate of 2% of the corporate tax base of the Bank to Small and Medium Industries Development Organisation ("KOSGEB") in accordance with the establishment law of KOSGEB.

25 COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the balance sheets, including letters of guarantee, other guarantees and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

Legal proceedings

At 31 December 2016, there are 136 legal proceedings outstanding against the Bank. As of 31 December 2016, the Bank has not provided a provision for these legal proceedings, since possible outflow of resources embodying economic benefits to settle these contingent liabilities will be immaterial. A number of the outstanding litigation cases in Turkish courts relate to employee bonus payments.

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

25 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

Commitments under derivative instruments:

The breakdown of swap transactions at 31 December 2016 and 31 December 2015 is as follows:

		31 December 2016		31 December 2015	
	Currency	**Foreign currency amount**	**TL**	**Foreign currency amount**	**TL**
Transaction type					
Interest rate swap purchases	USD	1,800,383,160	6,338,789	1,215,000,000	3,539,538
Foreign currency swap purchases	USD	190,222,245	669,734	41,423,177	120,674
	TL	-	-	102,595,000	102,595
Foreign currency forward purchases	USD	1,076,075,000	3,788,645	773,364,342	2,252,965
	TL	3,763,755	3,764	26,764,000	26,764
	EUR	-	-	-	-
Cross currency swaps purchases	USD	781,235,860	2,750,575	313,197,515	912,407
	JPY	23,800,000,000	715,642	-	-
Option purchases	TL	720,000	720	-	-
	EUR	200,000	740	-	-
Total purchases			**14,268,609**		**6,954,943**
Interest rate swap sales	USD	1,800,383,160	6,338,789	1,215,000,000	3,539,538
Foreign currency swap sales	EUR	100,000,000	370,000	61,999,937	197,290
	GBP	6,600,000	28,516	4,650,414	20,087
	JPY	1,447,484,375	43,525	188,502,232	4,561
	TL	229,017,455	229,018	-	-
Foreign currency forward sales	TL	3,537,872,693	3,537,875	2,343,301,000	2,343,301
	GBP	-	-	650,090	2,808
	JPY	-	-	16,077,038	389
	USD	1,050,000	3,697	7,570,026	22,053
Cross currency swaps sales	TL	36,220,000	36,220	36,220,000	36,220
	EUR	882,917,484	3,266,337	255,672,983	813,577
Option sales	TL	720,000	720	-	-
	EUR	200,000	740	-	-
Total sales			**13,855,505**		**6,979,824**
Total			**28,124,114**		**13,934,767**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

25 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

Maturity analysis of swap and forward transactions are as follows:

	31 December 2016				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Interest rate swap purchases	--	670,301	3,908,088	1,760,400	6,338,789
Foreign currency swap purchases	669,734	--	--	--	669,734
Forward foreign currency purchases	1,079,288	2,713,121	--	--	3,792,409
Cross currency swaps purchases	--	--	1,208,554	2,257,663	3,466,217
Option purchases	1,460	--	--	--	1,460
Total purchases	**1,750,482**	**3,383,422**	**5,116,642**	**4,018,063**	**14,268,609**
Interest rate swap sales	--	670,301	3,908,088	1,760,400	6,338,789
Foreign currency swap sales	671,059	--	--	--	671,059
Forward foreign currency sales	977,562	2,564,010	--	--	3,541,572
Cross currency swaps sales	--	--	1,148,899	2,153,726	3,302,625
Option sales	1,460	--	--	--	1,460
Total sales	**1,650,081**	**3,234,311**	**5,056,987**	**3,914,126**	**13,855,505**

	31 December 2015				
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Interest rate swap purchases	43,698	1,718,788	1,777,052	-	3,539,538
Foreign currency swap purchases	220,972	2,297	-	-	223,269
Forward foreign currency purchases	949,290	1,330,439	-	-	2,279,729
Cross currency swaps purchases	-	-	407,849	504,558	912,407
Option purchases	-	-	-	-	-
Total purchases	**1,213,960**	**3,051,524**	**2,184,901**	**504,558**	**6,954,943**
Interest rate swap sales	43,698	1,718,788	1,777,052	-	3,539,538
Foreign currency swap sales	219,704	2,234	-	-	221,938
Forward foreign currency sales	947,457	1,421,094	-	-	2,368,551
Cross currency swaps sales	-	-	347,124	502,673	849,797
Swap sales	-	-	-	-	-
Total sales	**1,210,859**	**3,142,116**	**2,124,176**	**502,673**	**6,979,824**

The above tables summarise the Bank's derivative transactions that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date, in respective currencies. Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Bank with respect to commitments arising from these transactions.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

25 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

Credit related commitments:

Letters of guarantee, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under these guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

The following table shows the outstanding credit related commitments of the Bank at 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Financial guarantees		
Other guarantees		
-Foreign currency (Note 4)	3,863,578	2,754,481
Total financial guarantees	**3,863,578**	**2,754,481**

The Bank provides cover for Turkish exporters, against credit risk by offering variety of programs.

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

26 SEGMENT ANALYSIS

The main segments of the Bank are corporate banking and investment banking. Investment banking includes the treasury operations of the Bank whereas corporate banking includes all operations other than treasury (mainly all of the credit operations), which is reported in manner consistent with the internal reporting provided to the chief operating decision maker, the Assistant General Manager of Finance. The analysis is as follows:

31 December 2016	Corporate banking	Investment banking	Unallocated	Total
Segment revenue	1,747,284	733,647	-	2,480,931
Segment expenses	(426,854)	(391,062)	(1,241,690)	(2,059,606)
Net profit	**1,320,430**	**342,585**	**(1,241,690)**	**421,325**
Interest income	1,571,538	71,516	-	1,643,054
Interest expense	(414,795)	(369,261)	-	(784,056)
Depreciation and amortisation	-	-	(5,709)	(5,709)
Impairment charges on loans	-	(12,096)	-	(12,096)

31 December 2016	Corporate banking	Investment banking	Unallocated	Total
Total segment assets	**61,540,997**	**3,595,473**	**3,010,938**	**68,147,408**
Segment liabilities	51,807,130	8,088,174	3,050,567	62,945,871
Equity	-	-	5,201,537	5,201,537
Total liabilities and equity	**51,807,130**	**8,088,174**	**8,252,104**	**68,147,408**

31 December 2015	Corporate banking	Investment banking	Unallocated	Total
Segment revenue	1,281,016	612,869	-	1,898,885
Segment expenses	(195,423)	(303,092)	(905,964)	(1,404,479)
Net profit	**1,085,593**	**309,777**	**(905,964)**	**489,406**
Interest income	1,134,829	59,037	-	1,193,866
Interest expense	(191,213)	(291,415)	-	(482,628)
Depreciation and amortisation	-	-	(5,422)	(5,422)
Impairment charges on loans	-	(4,210)	-	(4,210)

31 December 2015				
Total segment assets	**43,053,740**	**559,091**	**679,519**	**44,292,350**
Segment liabilities	33,109,841	5,288,853	1,112,148	39,510,842
Equity	-	-	4,781,508	4,781,508
Total liabilities and equity	**33,109,841**	**5,288,853**	**5,893,656**	**44,292,350**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

26 SEGMENT ANALYSIS *(continued)*

Reconciliation of segment results of operations to:

31 December 2016	Corporate banking	Investment banking	Unallocated	Total
Interest income	1,571,538	71,516	-	1,643,054
Fee and commissions income	34,753	-	-	34,753
Foreign exchange gain	-	-	-	-
Gains on financial instruments classified as held for trading, net	-	662,131	-	662,131
Other operating income	140,993	-	-	140,993
Total segment revenue	**1,747,284**	**733,647**	**-**	**2,480,931**

31 December 2016	Corporate banking	Investment Banking	Unallocated	Total
Interest expense	(414,795)	(369,261)	-	(784,056)
Fee and commissions expense	-	(20,897)	-	(20,897)
Impairment charges on loans	-	(12,096)	-	(12,096)
Losses on financial instruments classified as held for trading, net	-	-	-	-
Foreign exchange losses	-	-	(1,000,621)	(1,000,621)
Other operating expenses	-	-	(241,936)	(241,936)
Total segment expense	**(414,795)**	**(402,254)**	**(1,242,557)**	**(2,059,606)**

31 December 2015	Corporate banking	Investment banking	Unallocated	Total
Interest income	1,134,829	59,037	-	1,193,866
Fee and commissions income	25,475	-	-	25,475
Foreign exchange gain	-	-	-	-
Gains on financial instruments classified as held for trading, net	-	553,832	-	553,832
Other operating income	125,712	-	-	125,712
Total segment revenue	**1,286,016**	**612,869**	**-**	**1,893,875**

31 December 2015	Corporate banking	Investment Banking	Unallocated	Total
Interest expense	(191,213)	(291,415)	-	(482,628)
Fee and commissions expense	-	(11,677)	-	(11,677)
Impairment charges on loans	(4,210)	-	-	(4,210)
Foreign exchange losses				
Losses on financial instruments	-	-	-	-
classified as held for trading, net	-	-	(700,836)	(700,836)
Other operating expense	-	-	(205,128)	(205,128)
Total segment expense	**(195,423)**	**(303,092)**	**(905,964)**	**(1,404,479)**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

27 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. For the purpose of this financial information the shareholders of the Bank together with state-controlled entities in Turkey are considered and referred to as related parties. Other related parties refer to entities controlled, jointly controlled or having significance influence by the Turkish Government.

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

(a) Balances with related parties:

	31 December 2016	31 December 2015
Due from banks:		
- Other related parties(1)	592,005	426,574
Loans and advances to customers:		
- Other related parties(2)	2,004,483	1,280,269
Trading securities:		
- Shareholder(3)	10,678	10,593
Investment securities ("Held to maturity")		
- Shareholder(4)	98,549	255,968
Funds borrowed		
- Other related parties(5)	32,272,616	22,955,874
Other liabilities		
- Other related parties	-	-

(1) Average interest rate for due from banks is 7.95% (2015: 4.91%)
(2) Average interest rate for loans and advances to customers is 3.99% (2015: 5.28%)
(3) Average interest rate for trading securities is 6.83% (2015: 6.97%)
(4) Average interest rate for investment securities is 9.68% (2015: 4.77%)
(5) Average interest rate for funds borrowed is 0.93% (2015: 0.98%)

(b) Transactions with related parties:

	31 December 2016	31 December 2015
Interest income on investment and trading securities:		
- Shareholder	24,934	24,599
Interest income on loans and advances to customers:		
- Other related parties	56,200	50,862
Interest expense on funds borrowed:		
- Other related parties	153,839	77,123
Operating expenses (taxes paid)		
-Other related parties	5,882	1,794

(c) Remuneration of key management personnel:

	31 December 2016	31 December 2015
Salaries and other short-term employee benefits	3,298	2,574
Post-employment benefits	-	-

28 EVENTS AFTER THE REPORTING PERIOD

With the decision taken at the Extraordinary General Meeting which has held on 12 January 2017, Osman Çelik has been appointed as Chairman of the Executive Board instead of Cavit Çağdaş. In addition, İbrahim Şenel who currently works as vice president of the executive board, left the audit committee membership position and Bülent Gökhan Günay is appointed for this position .

At the same Extraordinary General Meeting, it was decided to apply the registered capital system in the Bank. The relevant decision has been registered in the trade register and has been announced in the Turkish Trade Registry Gazette dated 30 January 2017 numbered 9252.